

# **Exhibit A-12**

**To:** scott@deeprootadvisors.com[scott@deeprootadvisors.com]  
**Cc:** nathan@deeprootadvisors.com[nathan@deeprootadvisors.com]; Ashley Hunecke[Ashley@factright.com]  
**From:** Russell Putnam  
**Sent:** 2019-10-21T15:36:01-04:00  
**Importance:** Normal  
**Subject:** RE: FactRight deeproot reviews  
**Received:** 2019-10-21T15:36:13-04:00  
[image001.jpg](#)  
[FactRight Report - deeproot 575 Fund, LLC \(October 2019\) - sponsor copy.pdf](#)  
[FactRight Report - deeproot Growth Runs Deep Fund, LLC \(October 2019\) - sponsor copy.pdf](#)

Scott,

Attached is the updated final sponsor versions of the deeproot 575 Fund, LLC, and deeproot Growth Runs Deep Fund, LLC, reports, dated October 15, 2019. These reports will only be available to broker dealers and registered investment advisors through the FactRight Report Center website, which can be accessed by registered users after logging on to the FactRight LLC website at [www.factright.com](http://www.factright.com). You agree not to distribute the report directly and will request interested parties to register for access at [here](#). If you or any interested party encounters any difficulty accessing this report, please have them contact Ashley Hunecke at [Ashley@FactRight.com](mailto:Ashley@FactRight.com). The report will be available for a period of one year. After one year it will no longer be accessible, unless an update is currently in progress.

It was a pleasure working with deeproot, and we look forward to continuing our relationship in the future.

Thanks,  
Russ

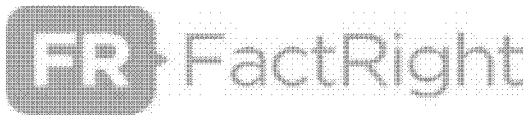
**Russell Putnam**

Due Diligence Analyst | FactRight, LLC

---

7500 Flying Cloud Dr., Suite 755  
Eden Prairie, MN 55344

D: (612) 284-1776  
O: (612) 284-6150



<http://www.factright.com>

CONFIDENTIALITY NOTICE: This communication and any attachments may contain confidential and privileged information, and are for the exclusive use of the intended recipient. If you are not the intended recipient of this communication and received this communication in error, please notify the sender immediately by phone and delete this communication and any attachments from your computer system. Any unauthorized use or dissemination of this communication or the contents of this communication is strictly prohibited and subject to liability as provided under the Electronic Communication Privacy Act.

---

**From:** scott@deeprootadvisors.com <scott@deeprootadvisors.com>  
**Sent:** Monday, October 21, 2019 11:13 AM  
**To:** Russell Putnam <russell@factright.com>

**Cc:** nathan@deeprootadvisors.com  
**Subject:** RE: FactRight deeproot reviews

Russ,

Robert has reviewed and confirmed the changes. Please see attached for the current operating agreements.

---

**From:** Russell Putnam <[russell@factright.com](mailto:russell@factright.com)>  
**Sent:** Friday, October 18, 2019 12:04 PM  
**To:** [scott@deeprootadvisors.com](mailto:scott@deeprootadvisors.com)  
**Cc:** [nathan@deeprootadvisors.com](mailto:nathan@deeprootadvisors.com)  
**Subject:** RE: FactRight deeproot reviews

Scott,  
Attached are the redline drafts showing the changes we'll be making to the deeproot reports. Please review and confirm the changes. Once we receive your confirmation and the current operating agreements (if any) we'll post the updated reports to our report center.  
Thanks,  
Russ

**Russell Putnam**  
Due Diligence Analyst | FactRight, LLC

---

7500 Flying Cloud Dr., Suite 755  
Eden Prairie, MN 55344

D: (612) 284-1776  
O: (612) 284-6150

---



<http://www.factright.com>

CONFIDENTIALITY NOTICE: This communication and any attachments may contain confidential and privileged information, and are for the exclusive use of the intended recipient. If you are not the intended recipient of this communication and received this communication in error, please notify the sender immediately by phone and delete this communication and any attachments from your computer system. Any unauthorized use or dissemination of this communication or the contents of this communication is strictly prohibited and subject to liability as provided under the Electronic Communication Privacy Act.

---

**From:** Russell Putnam  
**Sent:** Friday, October 18, 2019 11:13 AM  
**To:** [scott@deeprootadvisors.com](mailto:scott@deeprootadvisors.com)  
**Cc:** [nathan@deeprootadvisors.com](mailto:nathan@deeprootadvisors.com)  
**Subject:** RE: FactRight deeproot reviews

Scott,

Is there a new operating agreement for these funds? (One is referenced in your PPM supplement). The agreement we reviewed were dated February 26, 2018. Please provide ASAP.

**Russell Putnam**

Due Diligence Analyst | FactRight, LLC

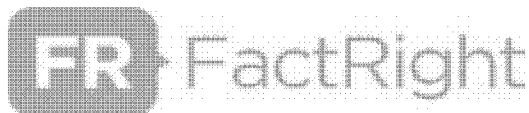
---

7500 Flying Cloud Dr., Suite 755  
Eden Prairie, MN 55344

D: (612) 284-1776

O: (612) 284-6150

---



<http://www.factright.com>

CONFIDENTIALITY NOTICE: This communication and any attachments may contain confidential and privileged information, and are for the exclusive use of the intended recipient. If you are not the intended recipient of this communication and received this communication in error, please notify the sender immediately by phone and delete this communication and any attachments from your computer system. Any unauthorized use or dissemination of this communication or the contents of this communication is strictly prohibited and subject to liability as provided under the Electronic Communication Privacy Act.

---

**From:** [scott@deeprootadvisors.com](mailto:scott@deeprootadvisors.com) <[scott@deeprootadvisors.com](mailto:scott@deeprootadvisors.com)>  
**Sent:** Wednesday, October 16, 2019 11:37 AM  
**To:** Russell Putnam <[russell@factright.com](mailto:russell@factright.com)>  
**Cc:** [nathan@deeprootadvisors.com](mailto:nathan@deeprootadvisors.com)  
**Subject:** FW: FactRight deeproot reviews

Hi Russ,

Please see below & attached for responses/updates from our Robert. Let us know if you need anything else.

**From:** Robert J. Mueller <[robert@deeprootfunds.com](mailto:robert@deeprootfunds.com)>  
**Sent:** Tuesday, October 15, 2019 5:57 PM  
**To:** [nathan@deeprootadvisors.com](mailto:nathan@deeprootadvisors.com)  
**Cc:** [scott@deeprootadvisors.com](mailto:scott@deeprootadvisors.com)  
**Subject:** RE: FactRight deeproot reviews

There are some (I would argue) wrong things in there, but they are not worth nit picking over. Heres the short list. With both of these, they were looking at old PPM's. I thought y'all sent them the updated ones that Folio requested we make changes.

On dGRD:

- Page 4: Administrative Agent is deeproot Funds. deeproot Tech is not a part of this fund.



- Page 12: Table 2 is incorrect; and from the for Class B Shares PPM. Attached is the Class C PPM (submitted prior) that has a fixed 52.5% return for any investment amount.
- Pages 11-12: Based on the incorrect Table and PPM data, the hypotheticals bottom of page 11 and middle of page 12 will change.
- Page 24: Form S-1? This shouldn't be in here. It has nothing to do with the current or former fund raising for the entity. It was abandoned.

On the 575:

- Page 3: Preferred Return... I think you had an old PPM (like the dGRD). The returns were updated for y'all and portfolio. See attached.
- Page 4: Administrative Agent is deeproot Funds. deeproot Tech is not a part of this fund.
- Page 12: Distributions should be updated to reflect PPM as attached. (At Folio's request we updated to lump sum (rather than annualized) returns for the Deferred option.

=====

Robert J. Mueller, Principal  
deeproot® Family of Companies

Phys: 12621 Silicon Dr, San Antonio, TX 78249  
Mail: P.O. Box 691610, San Antonio, TX 78269

Office: (888) 316-2935 x101  
Mobile: (210) 602-8724  
Facsimile: (888) 316-2782  
<http://www.deeprootfunds.com>

Investments in securities carry unique risks. Please carefully read the risks and disclosures contained in our Private Placement Memorandum or consult with your Broker/Investment Advisor/Accountant/ Attorney prior to making any investment. Nothing in this email shall constitute an offer or solicitation to buy or sell any security. Offers are only made via Sales Packet which contains a PPM, Application & Subscription Agreement, and other offering documents. Prior to investing, potential Investors need to fill out various suitability and accreditation forms and be approved by the Company. Information contained in this email is for the recipient and may be of a confidential nature. As such the recipient should be careful in sharing any information contained here. More information can be found on the Company's website or by contacting us.

---

**From:** [nathan@deeprootadvisors.com](mailto:nathan@deeprootadvisors.com) <[nathan@deeprootadvisors.com](mailto:nathan@deeprootadvisors.com)>  
**Sent:** Tuesday, October 15, 2019 4:58 PM  
**To:** [robert@deeprootfunds.com](mailto:robert@deeprootfunds.com)  
**Cc:** [scott@deeprootadvisors.com](mailto:scott@deeprootadvisors.com)  
**Subject:** FW: FactRight deeproot reviews

See attached for FactRight drafts. See below email. Need to review in next five business days

---

**From:** Russell Putnam <[russell@factright.com](mailto:russell@factright.com)>  
**Sent:** Tuesday, October 15, 2019 4:52 PM

**To:** [scott@deeprootadvisors.com](mailto:scott@deeprootadvisors.com)

**Cc:** Ashley Hunecke <[Ashley@factright.com](mailto:Ashley@factright.com)>; [nathan@deeprootadvisors.com](mailto:nathan@deeprootadvisors.com)

**Subject:** RE: FactRight deeproot reviews

Scott,

Attached is the updated draft FactRight Due Diligence reports for deeproot Growth Runs Deep Fund and deeproot 575, dated October 15, 2019. In accordance with our engagement letter, we would appreciate your reviewing the draft within the next five business days. If you believe there are factual errors, please communicate these. Any changes will be made at the sole discretion of FactRight. As you review the report for factual accuracy, we will edit it for grammar and formatting. In accordance with our engagement letter, please note you will have one opportunity to submit requests for factual changes to this draft. The drafts are substantially the same as the previous report, although we have made some updates. Any questions, let me know.

Thanks,

Russ

**Russell Putnam**

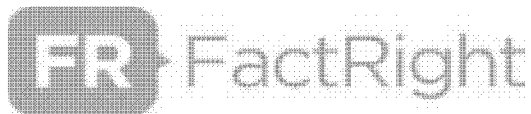
Due Diligence Analyst | FactRight, LLC

---

7500 Flying Cloud Dr., Suite 755  
Eden Prairie, MN 55344

D: (612) 284-1776

O: (612) 284-6150



<http://www.factright.com>

CONFIDENTIALITY NOTICE: This communication and any attachments may contain confidential and privileged information, and are for the exclusive use of the intended recipient. If you are not the intended recipient of this communication and received this communication in error, please notify the sender immediately by phone and delete this communication and any attachments from your computer system. Any unauthorized use or dissemination of this communication or the contents of this communication is strictly prohibited and subject to liability as provided under the Electronic Communication Privacy Act.

**From:** Russell Putnam

**Sent:** Friday, October 11, 2019 10:33 AM

**To:** [scott@deeprootadvisors.com](mailto:scott@deeprootadvisors.com)

**Cc:** Ashley Hunecke <[Ashley@factright.com](mailto:Ashley@factright.com)>; [nathan@deeprootadvisors.com](mailto:nathan@deeprootadvisors.com)

**Subject:** RE: FactRight deeproot reviews

Thanks Scott. Appreciate you taking the time to provide us a little more insight. Hoping to have the drafts over to you for review by end of day Monday.  
Have a great weekend!  
Russ

**Russell Putnam**

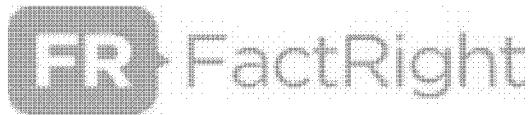
Due Diligence Analyst | FactRight, LLC

---

7500 Flying Cloud Dr., Suite 755  
Eden Prairie, MN 55344

D: (612) 284-1776  
O: (612) 284-6150

---



<http://www.factright.com>

CONFIDENTIALITY NOTICE: This communication and any attachments may contain confidential and privileged information, and are for the exclusive use of the intended recipient. If you are not the intended recipient of this communication and received this communication in error, please notify the sender immediately by phone and delete this communication and any attachments from your computer system. Any unauthorized use or dissemination of this communication or the contents of this communication is strictly prohibited and subject to liability as provided under the Electronic Communication Privacy Act.

---

**From:** [scott@deeprootadvisors.com](mailto:scott@deeprootadvisors.com) <[scott@deeprootadvisors.com](mailto:scott@deeprootadvisors.com)>  
**Sent:** Friday, October 11, 2019 10:27 AM  
**To:** Russell Putnam <[russell@factright.com](mailto:russell@factright.com)>  
**Cc:** Ashley Hunecke <[Ashley@factright.com](mailto:Ashley@factright.com)>; [nathan@deeprootadvisors.com](mailto:nathan@deeprootadvisors.com)  
**Subject:** RE: FactRight deeproot reviews

Hi Russ,

Please see attached for the answers. I also attached disclosures for Sports & Entertainment, Tech, and Real Estate. Let us know if you need anything else.

Thanks,  
Scott

---

**From:** Russell Putnam <[russell@factright.com](mailto:russell@factright.com)>  
**Sent:** Wednesday, September 25, 2019 2:54 PM  
**To:** [scott@deeprootadvisors.com](mailto:scott@deeprootadvisors.com)  
**Cc:** Ashley Hunecke <[Ashley@factright.com](mailto:Ashley@factright.com)>; [nathan@deeprootadvisors.com](mailto:nathan@deeprootadvisors.com)  
**Subject:** RE: FactRight deeproot reviews

Hey Scott,  
We're starting to take a look at the updates. I'm going to have some follow up questions, to give our report a little more clarity regarding the programs. I'm hoping to get you those questions by early

next week.  
Thanks,  
Russ

**Russell Putnam**  
Due Diligence Analyst | FactRight, LLC

---

7500 Flying Cloud Dr., Suite 755  
Eden Prairie, MN 55344

D: (612) 284-1776  
O: (612) 284-6150

---



CONFIDENTIALITY NOTICE: This communication and any attachments may contain confidential and privileged information, and are for the exclusive use of the intended recipient. If you are not the intended recipient of this communication and received this communication in error, please notify the sender immediately by phone and delete this communication and any attachments from your computer system. Any unauthorized use or dissemination of this communication or the contents of this communication is strictly prohibited and subject to liability as provided under the Electronic Communication Privacy Act.

---

**From:** [scott@deeprootadvisors.com](mailto:scott@deeprootadvisors.com) <[scott@deeprootadvisors.com](mailto:scott@deeprootadvisors.com)>  
**Sent:** Tuesday, September 24, 2019 1:04 PM  
**To:** Russell Putnam <[russell@factright.com](mailto:russell@factright.com)>  
**Cc:** Ashley Hunecke <[Ashley@factright.com](mailto:Ashley@factright.com)>; [nathan@deeprootadvisors.com](mailto:nathan@deeprootadvisors.com)  
**Subject:** RE: FactRight deeproot reviews

Hi Russ,

I just wanted to quickly check in and see how things are going. Do you have an ETA at this point when everything will be completed?

Thanks,  
Scott

**From:** Russell Putnam <[russell@factright.com](mailto:russell@factright.com)>  
**Sent:** Tuesday, September 17, 2019 10:23 AM  
**To:** [scott@deeprootadvisors.com](mailto:scott@deeprootadvisors.com); [nathan@deeprootadvisors.com](mailto:nathan@deeprootadvisors.com)  
**Cc:** Ashley Hunecke <[Ashley@factright.com](mailto:Ashley@factright.com)>  
**Subject:** FactRight deeproot reviews

Hey Scott,  
Nice connecting with you this morning. As stated, we'll reach out over the next few weeks with any questions regarding the updates. If you have any questions, let me know.  
Thanks,

Russ

**Russell Putnam**

Due Diligence Analyst | FactRight, LLC

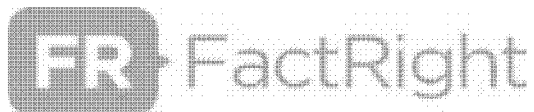
---

7500 Flying Cloud Dr., Suite 755  
Eden Prairie, MN 55344

D: (612) 284-1776

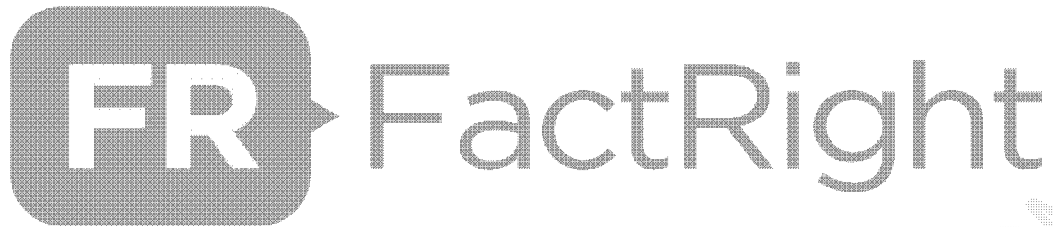
O: (612) 284-6150

---

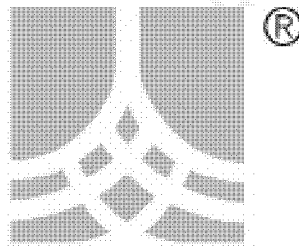


<http://www.factright.com>

CONFIDENTIALITY NOTICE: This communication and any attachments may contain confidential and privileged information, and are for the exclusive use of the intended recipient. If you are not the intended recipient of this communication and received this communication in error, please notify the sender immediately by phone and delete this communication and any attachments from your computer system. Any unauthorized use or dissemination of this communication or the contents of this communication is strictly prohibited and subject to liability as provided under the Electronic Communication Privacy Act.



# Due Diligence Report



deeproot

Offering  
Date

deeproot 575 Fund, LLC  
October 15, 2019

## Contents

<b>EXECUTIVE SUMMARY</b>	<b>3</b>
Offering Summary	3
Investment Objectives	4
Additional Information	5
<b>FEES AND EXPENSES</b>	<b>5</b>
Offering Expenses	5
Sales Discounts	6
Operating and Disposition Fees	6
Interest in the Fund	7
<b>INVESTMENT OVERVIEW</b>	<b>7</b>
Targeted Investments	7
Affiliated Transactions	9
Investment Allocation	10
<b>OFFERING PORTFOLIO ANALYSIS</b>	<b>10</b>
Equity Raise	10
Current Portfolio	11
Dispositions	11
Acquisition Pipeline/Capital Deployment	11
<b>OFFERING FINANCIAL ANALYSIS</b>	<b>11</b>
Leverage	12
Distributions	12
Reserves	13
Financial Model	13
<b>LIQUIDITY</b>	<b>13</b>
Repurchase	13
Transferability	14
Exit Strategy	15
<b>MANAGEMENT</b>	<b>15</b>
Manager	15
Policy Administrator	16
Governance	16

Indemnification	18
<b>ADDITIONAL OFFERING CONSIDERATIONS</b>	<b>19</b>
Valuation	19
Liability	19
Tax Considerations	20
<b>LEGAL AND REGULATORY</b>	<b>20</b>
<b>SUMMARY OF KEY FINDINGS</b>	<b>21</b>
Strengths	21
Risks and Mitigants	21
<b>FACTRIGHT, LLC</b>	<b>22</b>
<b>USE AND SCOPE OF THIS REPORT</b>	<b>22</b>
<b>APPENDIX A: DOCUMENTS REVIEWED</b>	<b>24</b>
<b>APPENDIX B: CUSTOMARY PRIVATE FUND RISKS</b>	<b>25</b>



## Executive Summary

### Offering Summary

Table 1 summarizes the key offering terms and defines abbreviations used throughout this report.

**Table 1**

Product Information	
Offering name	deeproot 575 Fund (the Fund)
Legal structure	Texas limited liability company
Security type	Class C membership shares (the Shares or Class C Shares)
Investment focus	Fund-of-funds
Date formed	December 18, 2014
Price per share	\$25,000
Maximum offering	\$75 million
Minimum offering	\$100,000
Minimum investment	\$50,000 (2 Shares)
Offering termination	Perpetual; no stated termination date
Current raise	N/A
Exit time frame	5 years after initial investment
Preferred return	5% periodic return, or 35% or 45% of invested capital lump-sum deferred based on capital contributions; see <a href="#">Distributions</a>
Redemption feature	Manager's discretion; see <a href="#">Repurchase</a>
Leverage	None expected
PPM date	February 5, 2018; supplement dated April 26, 2018
Suitability	Accredited investors or suitable non-accredited investors; qualified funds accepted (Class C Shareholders)
Registration exemption	506(b) under Regulation D, Amended Form D filed 9/12/2019 (CIK # 0001652459)

Use of Funds	Amount	Percentage of Equity
Total	\$75,000,000	100.00%
Up-front expense maximum	\$15,000,000	20.00%
Funds available for investment	\$67,500,000	80.00%

Front-End Fees	Amount (as a % of gross offering proceeds)	Paid To
Total up-front advance*	2% minimum; capped at 20%	N/A
Selling commission	6.00%	Selling group
Investor advisory fee	Any investor advisory fee will be at the expense of the Investor	Selling group
O&O reimbursement	3.00%; estimated	Manager
Annual IRA/qualified fee	As billed by plan custodians	Custodians

\*The total up-front advance includes front-end fees and the asset management fee described below.

Operating Fees	Amount	Paid To
Acquisition fee	N/A	N/A
Asset management fee	The Fund will pay an asset management fee indirectly; see <a href="#">Operating and Disposition Fees</a>	Manager

Sponsor	
Sponsor name	Policy Services, Inc. (Sponsor)
Contact	Robert J. Mueller
Phone	(888) 316-2935
Year of formation	2012
Prior similar syndications	\$32.2 million Class B membership shares of the Fund, which own separate and distinct assets from Class C Shares offered in this offering
Full-cycle offerings	None

Service Providers	
MBD	None
Manager/Administrative agent	deeproot Funds, LLC (Manager)
Escrow agent	None

### Investment Objectives

The Fund's objectives are as follows:

- Generate positive returns for investors in the Fund (Class C Shareholders)
- Achieve consistent and predictable growth
- Offer Class C Shareholders a choice between growth and income

Except for the notable exception of offering Class C Shareholders a choice between growth and income (see [Distributions](#)), the Fund's investment objectives are comparable to those of similar private

placement funds. FactRight believes these objectives are reasonable given the Fund's targeted investments.

### Additional Information

- The Fund will conduct its operations by purchasing and then holding affiliated entities (collectively Underlying Funds), rather than investing in individual assets directly (it is a Fund-of-funds). Class C Shareholders are indirectly exposed to the risks and expenses of the Underlying Funds. FactRight prepared this report on the Fund only.
- Completely unrelated to the Fund-of-funds structure described above, the Fund sold, and will sell, Class B membership shares (Class B Shares) in a separate series and under a separate private placement memorandum (PPM). The Fund will earmark for Class C Shareholders any assets it purchases from Class C Shareholders' proceeds, and the two share classes will not be comingled.
  - From an ownership and accounting perspective, segregation of assets within one Fund is an atypical structure relative to most programs that FactRight reviews.
- FactRight has not been engaged to provide a current operational due diligence report on the Sponsor. Broker dealers and RIAs are encouraged to review the Sponsor's financial position, track record, organizational structure, and operational controls in addition to this report.

### Fees and Expenses

FactRight assessed whether fees and expenses for this offering are in line with similar offerings and whether the fee structure creates any perverse incentives for management.

#### Offering Expenses

- This is a best-efforts offering.
- The Sponsor may engage third parties to help it distribute Shares. As of the date of this report, it has not selected a managing broker dealer (MBD).
- The Fund will collect an advance of no less than 2% and no more than 20% of the initial principal of each investment (the Advance).
- The Fund will then pay the Advance to the Manager for the following:
  - Underlying Fund asset management fees; see Operating and Disposition Fees
  - Reimbursement of organizational and offering (O&O) expenses incurred, which the Manager estimates at \$6.75 million (9% of offering proceeds) if the maximum offering is raised; of this \$6.75 million, \$4.5 million (6% of offering proceeds) is for brokerage commissions and \$2.25 million (3% of offering proceeds) is for other O&O expenses.
    - Other O&O expenses include brokerage commissions, if any; administration expenses; IRA fees, if any; other compensation expenses; and marketing costs.
- The Manager represented to FactRight that the 20% Advance maximum also serves to cap the overall expenses Class C Shareholders pay to the Fund directly.

- Management represented that the remaining 11% of offering proceeds covers agent compensation (if any), nominal administration expenses, IRA fees, other compensation, marketing costs, and Fund Advisor fees.
- Despite taking the Advance, the Fund targets returning 100% of each Class C Shareholder's principal along with a contractual preferred return; see [Distributions](#).

### Brokerage Commission

If a Class C Shareholder is represented by a representative, agent, advisor, broker, or other professional who may legally receive compensation for referring, advising, or providing this offering to Class C Shareholders, the Fund may pay such professional a 6% brokerage commission, if such professional has disclosed the fee to the Class C Shareholder. The Fund will pay brokerage commissions, if any, from offering proceeds.

### Investor Advisory Fee

If the Fund is billed for and pays an investor advisory fee from an advisor or advisory firm that represents a Class C Shareholder, then the fee, plus 3% compounded interest, shall be deducted from the Class C Shareholder's liquidation amount; see [Distributions](#). Any investor advisory fee is an expense of the Class C Shareholder and is not included in any calculation or estimate of Fund expenses other than the Advance.

The Fund estimates direct offering expenses, excluding the management fee, to be 9.0% of gross offering proceeds, which is within the customary range for similar private offerings. FactRight points out that although expenses such as the asset management fee, brokerage commission, and investor advisory fee will not be duplicated, Class C Shareholders may pay additional nominal expenses indirectly because of the Fund-of funds structure. Management stated that if the Fund invests in any of the affiliated funds, the 20% allocation to up-front fees and costs will only be applied at the Fund level, and not again at the Underlying Fund level.

### Sales Discounts

- Class C Shareholders may purchase Shares net of selling commissions, as negotiated by the selling group member.
- Because discounts will result only from the waiver of selling commissions, the sale of discounted Shares will not be dilutive to other Class C Shareholders.

### Operating and Disposition Fees

Class C Shareholders pay the asset management fee indirectly at the Underlying Fund level; see [Affiliated Transactions](#).

- The asset management fee is not subordinated to Class C Shareholders' receipt of principal or return on investment.
  - There is no clawback provision in the event the Fund does not meet its objectives.
- The Fund will retain any assets in the portfolio once all Class C Shareholder positions have been called.
- Class C Shareholders have no residual equity interest in the Fund.

The Fund is not charging an asset management fee; however management affiliates may receive substantial compensation at the Underlying Fund level.

### Interest in the Fund

- The Fund is a limited liability company, of which the Manager is the sole original member. The Manager owns all of the Class A membership shares (Class A Shares), and Robert J. Mueller, sole principal of the deeproot® family of companies, controls the Manager.
- The Manager is entitled to a residual interest in the Fund, which includes returns from the pool of investments over the returns that are due and payable to Class C Shareholders.
- The Manager contributed \$1,000 in exchange for 1,500 Class A Shares on September 1, 2015.
- The Fund sold Class B Shares, which own separate and distinct assets, in a separate series.

FactRight believes that management's residual interest in the Fund helps align the Manager's interests with those of Class C Shareholders.

## Investment Overview

### Targeted Investments

FactRight reviewed offering documentation to identify whether the Fund's investment strategy is reasonable and clearly articulated and to determine whether the Manager has the discretion to diverge from the articulated strategy.

### dGRD

The Fund will invest 50% or more of its assets in Class C Shares in an affiliated life settlement fund, deeproot Growth Runs Deep Fund, LLC (dGRD).

- For more information, see the FactRight offering report on dGRD, dated October 15, 2019, which is available on the [FactRight Report Center](#).
- The Manager currently manages dGRD under a separate operating agreement.
- dGRD will invest in a variety of life insurance-related assets, including life settlements and insurance policies on the lives of persons not employed or affiliated with the Fund, and may hold cash or cash equivalents.
- dGRD may invest in other asset classes if it provides investors with reasonable notice.

- Life insurance policies must be from highly rated carriers with insured ages of greater than 65 years with target life expectancies between 4 and 6 years.
- dGRD may place no more than 30% of assets in private placement or capital acquisition sources.
- In identifying insurance policies for a diversified portfolio, dGRD will target many attributes, but foremost, it will analyze the reliability of the underwriting or life expectancy report. According to dGRD manager, well-known and reputable underwriters will prepare these reports.
- dGRD will purchase policies meeting the following criteria:
  - Minimum age of insured: 65
  - Target minimum age for male insured: 74
  - Target minimum age for female insured: 76
  - Minimum face-to-acquisition cost ratio at life expectancy: 10.70
  - Policy types: whole, universal life, indexed universal life, variable universal life, convertible term
  - Target life expectancy range: 3–12 years
  - Target life expectancy: 4–6 years
  - Internal life expectancy/premium expense life expectancy: +1 or higher
  - Carrier, AM Best, permissible ratings: B+, B++, A-, A, A+, A++
  - Less-than-65-years-of-age policies: less than 5% of aggregate investments
  - Second-to-die policies: less than 5% of aggregate investments

#### **Business Plan**

- dGRD will purchase eligible life insurance policies in the secondary market based on the following characteristics:
  - The policy's face value
  - The expected actuarial mortality of the insured
  - The premiums expected to be paid over the life of the insured
  - Market competition from other potential purchasers
- dGRD seeks to profit by purchasing policies at discounts to the face value of the insurance benefit.
- dGRD expects to purchase policies at discounts that will enable it to accomplish all of the following:
  - Pay premiums required under the policies
  - Cover the fund's operating expenses
  - Return the preferred return to each Class C Shareholder
  - Generate additional return for the fund

Management clarified that the Fund will purchase Class C Interests in dGRD, which have a corresponding first-in, first-out queue (FIFO Queue) for the assets that are specifically allocated to Class C Shares, and will not own interests associated with the FIFO Queue's associated with interests purchased by the Fund on behalf of Class B Shareholders.

According to management, dGRD has been buying and maintaining life policies since 2012, and it has purchased 24 policies, of which 4 have matured. Of the remainder, approximately one-third are at least one year beyond life expectancy, and three others are more than two years passed life expectancy.



### Other Underlying Funds

The Fund may invest up to 49% of its portfolio in any combination of other Underlying Funds as follows.

- **deeproot Sports and Entertainment**

- Focus on organizing and operating a minor league soccer team in the North American Soccer League (NASL) or United Soccer Leagues (USL).
- Investment goals include but are not limited to, continued preservation of principal in a collateralized asset class, diversification of assets, increase the overall safety profile of Class C Shareholders' principal and maturity interest returns, improve internal short-term investment returns, and build long-term capital appreciation from the future sale of the team.

- **deeproot Pinball**

- Pinball machine design, manufacturing, and distribution.

- **deeproot Commercial Real Estate**

- Debt and equity investments in multi-tenant housing, single or multi-tenant buildings, new or existing business structures, and other commercial real estate.
- Investment objectives include, but are not limited to, asset diversification, immediate income to offset payments to Class C Shareholders, and short-term hold periods.
- The PPM refers to these options (Other Underlying Funds) only as "affiliated investment positions in another enterprise."
- The disclosure documents the Sponsor provided in the PPM do not include a meaningful valuation, accounting, or legal description of the Other Underlying Funds. Management did provide FactRight with disclosure summaries regarding these Underlying Funds. A full review of the strategy and performance of these three Underlying Funds is beyond the scope of this report. Further, the fee structure and distribution provisions for these Underlying Funds is beyond the scope of this report.
- Management represented that it intends for these entities to be ongoing enterprises that are managed and controlled by management for diversification purposes, and that it has no intention for these entities to pursue any type of liquidity event within any specific time frame.
- FactRight makes no representation of any kind regarding the Other Underlying Fund options provided by the Sponsor. The Manager has broad authority in making investment decisions and may change its strategy over the course of deploying capital.

### Affiliated Transactions

FactRight reviewed offering documentation to determine the conditions upon which the Fund may enter into affiliated transactions with management, whether such conditions are customary, and if the Fund can make affiliated transactions on terms unfavorable to Class C Shareholders.

- The Fund, as a matter of operational policy, intends to hold greater than 51% of its assets in dGRD and up to 49% of its assets in Other Underlying Funds.
- The Manager believes this strategy will help it accomplish the following:
  - Provide short-term liquidity

- Provide liquid revenue to Class C Shareholders sooner than would be possible by holding only individual life insurance contracts

The Manager may cause the Fund to transact in affiliated acquisitions and sales without further restriction. These transactions will not be negotiated on a third-party, arm's length basis and may not always represent the best interests of Class C Shareholders in the Fund. Potential affiliated transactions at the Underlying Fund level is beyond the scope of this report.

### Investment Allocation

FactRight reviewed offering documentation and the Sponsor's investment allocation policy to determine how management is allocating investment opportunities between potentially competing investment programs and whether management has any procedures that prevent it from awarding the best investment opportunities that it identifies to the Fund.

- The Sponsor represented to FactRight that management does not acquire assets related to life insurance for its own account.
- The Sponsor may raise and deploy capital for more than one life insurance-related investment program at a time.
- There is no allocation policy that requires the Fund to allocate Class B or C Shareholder capital to certain Underlying Funds.

FactRight did not identify any investment allocation conflicts that would prevent management from allocating the best opportunities it identifies to the Fund; however, Class C Shareholders should be aware that the Fund might allocate investment opportunities to Class B Shareholders at any point in time. Because the Class B and Class C Shareholders are segregated within the Fund, one share class might be granted an investment opportunity to the detriment of the other.

## Offering Portfolio Analysis

### Equity Raise

FactRight assessed the Fund's current capital raise for Class C Shares to identify any concerns regarding the Fund's ability to raise substantial funds, which could limit the size and number of investments it can make and its ability to achieve its investment objectives.

- According to management, the Fund has raised at least \$32.2 million through a separate offering of Class B Shares. Class B Shareholders will own separate and distinct assets from the Class C Shareholders.
- Management stated it did not begin offering Class C Shares until early 2018. The Fund has not raised any capital through the sale of Class C Shares as of the date of this report.

FactRight recommends ongoing monitoring of the Fund's capital raise trends in the future.



### Current Portfolio

FactRight assessed the current investment portfolio to determine whether the Fund is investing within its stated investment strategy.

- As of a previous review, the Sponsor held an insurance policy portfolio of approximately \$34.7 million (face value) with an aggregate acquisition price of \$15.6 million. Management did not provide updated information as of the date of this report, but represented that the portfolio is substantially the same.
- As it has not raised any capital through this offering, Class C Shareholders have not acquired any assets as of the date of this report.

### Dispositions

- The Fund had disposed of no assets as of the date of this report.

### Acquisition Pipeline/Capital Deployment

FactRight requested, but was not provided, a list of dGRD's investment pipeline to determine whether targeted opportunities meet the Underlying Funds' stated investment criteria and if sufficient assets are available in the pipeline to allow dGRD to successfully implement its investment strategy, as described in [Targeted Investments](#).

The Manager represented to FactRight that dGRD has readily available opportunities through its broker network and the secondary life insurance policy market. The Manager declined to provide specific targeted policies due to the time sensitivity and constant flux of the market.

FactRight has no reason to believe that the supply of suitable opportunities is insufficient for the dGRD to deploy capital. Further review of the investment pipelines for the other Underlying Funds is beyond the scope of this report.

### Offering Financial Analysis

FactRight typically reviews the overall financial health of the Fund, including its financial position and results from operations in order to identify red flags or risks, particularly those that could affect Class C Shareholders.

- Because the Fund has no assets in its portfolio allocated to Class C Shares, it has no meaningful performance to evaluate.

## Leverage

FactRight reviewed offering documentation to determine whether the Fund has any limits on leverage and to identify management's anticipated use of leverage. FactRight also assessed the Fund's current use of leverage in order to identify any material debt-related considerations.

- The operating agreement does not impose any leverage limits on the Fund.
- dGRD is permitted to borrow against life insurance policies.
- Further review of the leverage strategy for the other Underlying Funds is beyond the scope of this review.
- The Fund has not entered into any financing agreements as of this review.

The Manager represented to FactRight that it does not intend to leverage the Fund. FactRight believes that the Fund's intended leverage strategy is reasonable, but the Manager and the Underlying Funds may utilize leverage at any time.

## Distributions

FactRight reviewed offering documentation to identify the terms under which management may authorize distributions and to assess whether management's interests are aligned with Class C Shareholders' interests. Additionally, FactRight assessed how funds from operations compare to distributions paid and whether there are any material considerations regarding distribution sources.

- When purchasing Shares, Class C Shareholders have the choice between receiving either a periodic or a lump sum preferred return.
  - No matter what option they choose, Class C Shareholders who contribute \$300,000 or more will receive a bonus equal to 5% of the capital contributed. As an illustrative example only, a Class C Shareholder who contributes \$300,000 would be credited with having contributed \$315,000.
- Class C Shareholders who choose a periodic return will receive 5% per annum of their invested capital, paid monthly, commencing 60 days after the Fund accepts their investment.
- Class C Shareholders who choose a lump sum return will receive 35% of invested capital (if the investment amount is less than \$350,000), or 45% of invested capital (if the investment amount is at least \$350,000) in a lump sum on the Normal Call (defined below) date.
- Class C Shareholders will not have interest in the upside of the Fund beyond their 5% annual return or lump sum payment. Management, as Class A Shareholders, will receive any returns from the pool of investments over the returns due and payable to Class C Shareholders.
- Because the Fund has not raised any capital from Class C Shareholders, it has not yet made any distributions.
- The Fund may make distributions from any source.
  - As a result, the Fund may be able to provide the preferred return with funds not earned through its operations.
- The Fund may also make tax distributions.
  - This means Class C Shareholders may be deemed to have received income for tax purposes without receiving an actual return from the Fund.

While the Manager will earn the management fee regardless of profitability, FactRight believes the Manager's back-end profit participation increases the Manager's incentive to return Class C Shareholder capital and meet the preferred return distributions. Broker Dealers and RIAs should also evaluate whether they believe the 5% periodic or 35%/45% lump sum returns adequately compensate Class C Shareholders for the risks associated with the Fund's investment strategy.

### Reserves

FactRight reviewed offering documentation to determine for what purpose reserve accounts, if any, will be used, whether it appears reserve funds will be sufficient for those purposes, the sources of reserve funds, and whether the reserve funds are accountable to Class C Shareholders.

- The PPM does not mention any specific reserve accounts.
- The PPM allows the Manager to create reserve accounts out of offering proceeds for administration or management purposes.

The lack of articulated reserve accounts at the outset of this offering is typical for similar investment programs and does not raise any concerns for FactRight.

### Financial Model

FactRight typically reviews a Fund's pro forma cash flow projections for three purposes: (i) to identify assumptions in the pro forma, (ii) to assess the pro forma for reasonableness, and (iii) to undertake sensitivity analysis on material assumptions in order to identify areas of sensitivity and risk.

- FactRight requested, but Manager was unable to provide, a pro forma cash flow projection. The Manager responded that long-term cash flows cannot be projected because of the unique structure of the Fund.

### Liquidity

#### Repurchase

FactRight reviewed offering documentation to identify whether Class C Shareholders will be offered any liquidity through a share call program and to assess whether the terms of such a call program are customary for similar private programs.

#### Call Feature

- The Fund may call the Shares in its sole discretion.
- Class C Shareholder positions are subject to what the PPM refers to as normal and premature calls (Normal Call and Premature Call).

- The Fund intends to initiate a Normal Call 5 years less one day from when it issued the respective Share position.
- The Fund is permitted to issue a Premature Call before the Normal Call term has been satisfied.
  - Management stated that it may issue a Premature Call if it has received surplus funding or asset returns and wanted to clear the Class C Shareholders to wind down the Fund.
- In the event the Fund issues a Premature Call, it must pay the full preferred return due each Class C Shareholder as if each Class C Shareholder held the shares until the Normal Call date.
- Management stated that if Class C Shareholders wish to have their Shares repurchased that the repurchase price would be equal to the pricing and terms that would be available to new Class C Shareholders at that time, although this is not specified in offering documents.
- Management stated it would use surplus funding, asset returns, or available cash to complete repurchases.

### Right to Renew

- Class C Shareholders may only renew if the Fund permits.
- In the event that any Class C Shareholder renews, its purchase date will be reset and his or her new Normal Call date will once again be 5 years less one day from that date.
- In lieu of accepting a Normal Call in cash, a Class C Shareholder may reinvest part, or all, of the called Shares. If a Class C Shareholder renews at least 90% of the called Shares, the Class C Shareholder will receive a bonus of 5% added to the renewed position.
  - As an illustrative example only, if the Class C Shareholder were eligible to receive \$100,000 in cash but instead renewed, such Class C Shareholder would be credited with a new investment in the Fund of \$105,000.
  - The renewal bonus is not cumulative.
- At the same time a Class C Shareholder renews, such Class C Shareholder must once again choose between the periodic and lump sum preferred return payment options.

The Call Normal and Premature Call Feature is atypical of many private placements that FactRight has reviewed. Although the features offer a form of liquidity, at the Manager's discretion, which many private placements do not.

### Transferability

FactRight reviewed offering documentation to determine whether restrictions on the transferability of Shares are customary for similar private programs.

- No market exists for the Shares, nor is one expected to develop.
- Class C Shareholders may not sell or transfer Shares without the consent of the majority of the Class A Shareholders.
  - As per the PPM, the Manager holds all Class A Shares.
- The operating agreement provides certain conditions that must be satisfied for a Class C Shareholder to transfer Shares, including the following:

- The transferor delivers an unqualified opinion of counsel (designated by the remaining Investors) that the transfer does not violate any provision of any federal or state securities laws.
- The transferee executes a statement that it is acquiring the Shares for its own account for investment and not with a view to distribution or resale.
- The Fund receives a favorable opinion from the Fund's legal counsel that the transfer would not result in the termination of the Fund.
- Under specific circumstances, remaining members and Class C Shareholders may waive certain requirements.

This is an illiquid investment. The restrictions on transferability are numerous and customary for similar private programs.

### Exit Strategy

FactRight assessed offering documentation for potential liquidity options, as well as expectations for Investor exit, in order to identify whether the plans for liquidity are customary and consistent with the nature of the Fund's targeted investments.

- The specific term of the investment is 5 years less one day.
- dGRD intends, but is not required, to purchase life insurance assets with a target life expectancy of 4 to 6 years. Management represented that it intends for the other Underlying Funds to be ongoing enterprises that are managed and controlled by management for diversification purposes, and that it has no intention for these entities to pursue any type of liquidity event within any specific time frame.
- Unless the Fund calls the Shares, Class C Shareholders will remain invested in the Fund and may not sell or assign Shares without permission or approval of the Manager; see [Transferability](#).

FactRight believes the contemplated plan for liquidity is typical for similar private programs and is consistent with the nature of the Fund's [targeted investments](#).

## Management

### Manager

FactRight reviewed the draft operating agreement to determine whether the Manager's rights and duties are customary for similar investment programs.

- The Manager has exclusive control over all management of the affairs and operations of the Fund.
- According to the PPM, the Fund has designated Robert J. Mueller as its "initial" Manager, and a board of managers will ultimately manage the Fund. According to Mr. Mueller as well as the investment allocation agreement reviewed by FactRight, deeproot Funds, LLC, an entity controlled by Mr. Mueller, is already managing the Fund.

- The Manager must manage the Fund in a prudent and businesslike manner, devoting such portion of its time and effort to Fund affairs as may reasonably be required to manage the Fund effectively.

FactRight points out that the prudent and businesslike manner standard is the sole standard of care imposed under the operating agreement.

### **Administrative Agent**

- The Manager has entered into an investment allocation agreement with the Administrative Agent, an affiliate also controlled by Robert J. Mueller, to direct the investment capital of the Fund.
- The Administrative Agent's authority includes the following:
  - Receiving funds
  - Borrowing, buying, selling, leasing, exchanging, converting, and executing transactions
  - Commencing, operating, managing, and directing and disbursing investments of the Fund without prior consultation with the Manager
  - Performing any reasonable activity it deems necessary to achieve the goals of the Fund
- The Administrative Agent must act not only within the authority of the Manager but also within its own discretionary authority provided under the investment allocation agreement.
- Under the terms of the agreement, the Administrative Agent must act with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would act.
- The agreement does not prohibit the Manager or its Administrative Agent from managing similar investment programs that may compete with the Fund; see [Investment Allocation](#).

The Manager and Administrative Agent have operational roles that are customary for similar investment programs; however, they have the duty only to act in accordance with a reasonably prudent person type standard, which is a lesser standard than fiduciary duty. A fiduciary duty is typically imposed on persons having management roles in publicly registered companies.

### **Policy Administrator**

As per the PPM, dGRD will use an affiliated policy administrator between itself and insurance carriers of the policies it purchases. Management represented to FactRight that the policy administrator will be the Sponsor. The Fund makes no further mention of this arrangement in any of the offering documentation.

### **Governance**

FactRight assessed the operating agreement for various provisions, including those related to the Manager and Class C Shareholder rights, transparency, and other features or limitations not addressed elsewhere in this report.



### Investor Rights

- Class A Shareholders may adopt, amend, or restate the bylaws of the Fund.
- The Fund is authorized to issue 5,500 shares, which are segregated into three classes as follows:
  - 1,500 Class A Shares—\$1,000
  - 1,000 Class B Shares—\$25 million
  - 3,000 Class C Shares—\$75 million
- Upon dissolution of the Fund, Class B Shareholders will have priority over Class C Shareholders with regard to any final distribution of assets.
  - Class B and Class C Shareholders will have ownership interest in separate and distinct assets. Management clarified that Class B Shareholders will have priority rights to any remaining assets at a corporate level, not at an asset level.
- Class B and Class C Shareholders are entitled to the lump sum return percentage detailed in each class's respective PPM.
- The Fund may, without notifying Class C Shareholders, increase the outstanding, issued, and/or authorized amount of Class C Shares in order to accommodate renewals by Class C Shareholders.
- Class C Shareholders may remove the Manager only for conduct rising to clear and unambiguous criminal conduct as determined by a court.
- Class C Shareholders have limited voting rights, such as the right to consent to the following:
  - Any substantial changes to the offering
  - Substantial changes to the ownership or management of the Fund
  - The sale, lease, exchange or disposal of all or substantially all of the Fund's property and assets
  - Any requirement that forces the majority of Class C Shareholders to make additional capital contributions
  - Any amendment or restatement of the articles of the Fund that would adversely impact the rights, privileges, or benefits of any Class C Shareholder

As is the case for similar private programs, Class C Shareholders will not have the right to participate in management. However, Class C Shareholders will be able to vote on the above actions, which FactRight believes are relatively customary voting rights for similar private placement programs.

### Transparency

- None of the Fund's offering documents require the Fund to have any of its financial statements audited.
- Upon request, the Manager will deliver to each Class C Shareholder the following:
  - Financial statements of the Fund for that year, including an income statement, balance sheet, statement of cash flow and statement of changes in Class C Shareholders' equity, with a summary for each Class C Shareholder
  - Federal and other applicable income tax returns of the Fund for that year
- As per the PPM, secure online access to Fund information is available at <https://secure.deeprootfunds.com>.
- The Manager will provide the following:

- Notice of any default of any underlying asset
- A statement of account at least once annually
- A statement of the Fund's unaudited financial condition and internal valuation of its portfolio
- Notice of any adverse regulatory or legal notice, proceeding or decision that significantly affects Class C Shareholders' rights or values
- Notice of any other event that has a significant potential to negatively affect the Fund's ability to return principal and interest to Class C Shareholders
- The Manager, upon request, will provide the following:
  - A statement of account value
  - A statement of the Fund's current financial condition
- The Manager deems itself to have provided all information posted to the website, whether or not Class C Shareholders have requested such access.
  - Class C Shareholders that wish to have mail notifications must contact the Manager in writing at: PO Box 691610, San Antonio, TX 78269-1610.
- The Manager will maintain all documents of the Fund at its principal office, 8200 W. Interstate 10, Ste. 600, San Antonio, TX 78230, or at any other location in Texas that Manager may select.
- The Fund retains the right not to release certain information, including specific positions, investments, assets, or transactions in its portfolio.

The Fund will provide Class C Shareholders with access and information that FactRight believes is relatively customary for similar private placement programs, but for one notable exception. Class C Shareholders will not have access to the Underlying Funds' asset holdings. Class C Shareholders will not be unable to verify that the underlying assets purchased by the Underlying Funds are generating contractual returns at the Underlying Fund level. Class C Shareholders in the Fund are relying solely on the Manager's willingness, expertise, and ability to properly manage the Fund.

### Indemnification

FactRight reviewed the operating agreement to determine under what circumstances the Fund will indemnify the Manager and its affiliates and whether those conditions are customary for other similar private programs.

- With the exception of the specific instances that follow, the Fund will indemnify each Class C Shareholder, member, manager, and officer of the Fund to the full extent permitted in accordance with the provisions of the Texas law Act.
- The Fund will not indemnify the following:
  - A Class C Shareholder or member with respect to any dispute among the Class C Shareholders or members or among the Fund and any Class C Shareholder or member arising out of the operating agreement or any other agreement among such Class C Shareholders or members and the Fund
  - Any manager or officer with respect to any dispute between such manager or officer and the Fund arising out of any agreement between the Fund and such manager or officer.



FactRight believes the indemnification provisions in the operating agreement are relatively customary for similar private programs.

## Additional Offering Considerations

### Valuation

FactRight reviewed offering documentation and valuation policies, if any, to identify if the Fund has any requirements to provide estimated asset or per Share valuations, including a requirement to engage an independent valuation firm.

- The Fund is not required to undertake independent appraisals of the Underlying Funds in determining its Share value.
- The Manager will distribute the preferred return independent of any Underlying Fund's market value.
- If the Underlying Funds do not generate a sufficient return, the Manager makes no assurance that the Fund will have sufficient funds to pay Class C Shareholders in accordance with the scheduled Normal Calls.

The Fund does not have any meaningful valuation procedures. Management will have significant leeway in valuing the Fund's assets, and the Underlying Funds' assets, which is not atypical for similar private programs. If the value of the Fund decreases during the offering, new Class C Shareholders will experience an immediate dilution in value of any Shares purchased. The Fund may not be suitable for qualified plans that require the Fund to provide fiduciaries, IRA trustees, and custodians with an annual valuation of the Shares.

### Liability

FactRight reviewed the operating agreement to determine what level of personal liability Class C Shareholders will incur by investing in the Fund and under what circumstances, if any, capital calls are permitted.

- Offering documents reviewed by FactRight do not expressly permit or prohibit compulsory capital calls.
  - When dGRD acquires a life policy, it may be required to pay policy premiums. dGRD reserves the right to request additional capital from Class C Shareholders if (i) the Fund gives reasonable notice, and (ii) the Fund believes the request is in the financial best interest of Class C Shareholders.
  - Offering documents do not state the consequences of failing to meet a capital call. Management stated that if a default were to occur, the Fund would likely return the value of the capital calls at maturity to those Class C Shareholders who contributed additional capital rather than try to equalize those who contributed and penalize those who didn't.

- Class C Shareholders will not be personally liable for any debt or loss of the Fund beyond their respective capital contribution and undistributed share of Fund profits.
- Per Texas law, a Class C Shareholder may be liable to the extent of any distribution made if the Class C Shareholder knew at the time such distribution was made that the remaining assets would not be sufficient to meet any outstanding liabilities.

Limited personal liability for Class C Shareholders is customary for programs that use the limited liability company structure. Capital call features are not typical of private placement programs. FactRight points out that the Fund reserves the right to request, as opposed to compel, additional capital outlays from Class C Shareholders.

### Tax Considerations

FactRight reviewed offering documentation to assess whether any material tax issues may expose the Fund to non-customary risks.

- The Fund is accepting subscriptions from qualified accounts.
  - The Shares are not intended to satisfy required minimum distributions (RMDs), even though a Class C Shareholder's return might be greater than the annual RMD requirement.
- The Fund has not obtained a legal opinion concerning the tax implications of investing in the Fund, and the PPM states that it is each Class C Shareholder's responsibility to obtain an independent tax opinion concerning the tax status or implications of investing in the Fund.

The Sponsor touts the design of the Fund as the "only design of its kind in the world." Because of the fund's innovative design, limited operating history, and lack of tax opinion, there can be no assurances the Fund meets all of the requirements to be taxed as an LLC. FactRight encourages Class C Shareholders to consult their own tax advisors regarding their individual tax situations.

### Legal and Regulatory

The purpose of this section is threefold. First, this section attempts to ascertain the likelihood that an organization's officers or key employees may commit fraudulent or risky activity and to identify whether the manner in which an organization conducts its business activities may position the organization for costly litigation. Second, this section attempts to identify disqualifying "bad actor" events under 17 C.F.R. §230.506(d) of issuers, affiliated issuers, and individuals. This review does not include registered representatives or selling group members. Third, this section attempts to identify areas of litigation-related contingent liabilities that may affect the organization's financial position. FactRight attempts to analyze these questions by performing litigation and background searches on officers, certain key employees, and organizational entities. Additionally, FactRight reviews any exam or audit conducted by an organization's governing body. FactRight performs litigation and background searches using Scherzer International, Inc. (Scherzer), Lexis Advance® from LexisNexis (LexisNexis), Public Access to Court Electronic Records (PACER), FINRA BrokerCheck, and various state-sponsored



websites. Although FactRight makes every effort to locate any material criminal or civil matters, liens, judgments, and regulatory events, every background search system has limitations. Thus, not all such matters and events may be disclosed below.

With respect to background checks, FactRight reports only on those matters that it deems to be material using its professional judgment. Generally, FactRight's scope is 10 years, except for certain matters, including but not limited to fraud (including securities-related), license revocations, and other securities-related matters. FactRight deems immaterial isolated incidents of traffic violations, small tax liens, personal domestic matters, and litigation matters with small amounts at issue. With respect to entity background checks, FactRight deems immaterial matters within the ordinary course of business and when the amount in controversy is less than \$100,000.

Background, lien, judgment, and litigation searches were performed on Robert J. Mueller using data provided by Scherzer on February 22, 2018, and updated using data provided by LexisNexis on October 2, 2019.

Background, lien, judgment, and litigation searches were performed on the following entities using data provided by LexisNexis on October 2, 2019:

- deeproot 575 Fund, LLC
- Policy Services, Inc.
- deeproot Funds, LLC
- deeproot Tech, LLC

Within the parameters above, FactRight's searches did not reveal any material liens, judgments, or litigation.

FactRight's review found no disqualifying "bad actor" events related to the Sponsor, any affiliated issuer, or any affiliated individual. Although past conduct is not necessarily predictive of future activity, nothing came to FactRight's attention that would raise concern or require further investigation based on these background search results.

## Summary of Key Findings

### Strengths

- *Intentionally Omitted*

### Risks and Mitigants

- *Intentionally Omitted*

## FactRight, LLC

FactRight, LLC (FactRight), is a third-party risk management firm serving the investment marketplace. FactRight and its affiliated companies provide in-depth due diligence reports on alternative investment offerings and sponsors, investment committee recommendations, arbitration/litigation support, ongoing program monitoring, regulatory compliance, education and training, and other custom services.

FactRight relies on its professionals from each relevant discipline to evaluate the offerings and sponsors from a multidimensional perspective. Accordingly, FactRight's financial, legal, securities, business operations, and asset-specific experts bring their expertise to bear on every report FactRight provides to the investment community. FactRight's experts are not only committed to providing superior due diligence analysis and ongoing support to clients but are also active advocates in the alternative-investment industry.

## Use and Scope of This Report

**Use of This Report:** This report is not intended for use by investors and may not be shared with investors. Rather, this report is intended only for financial professionals who give investment advice. This report is not a recommendation to purchase or sell any investment. This report is largely based on information received from the sponsor that the sponsor has represented to be true and correct. FactRight may also have obtained information from outside sources. Although every effort has been made to ensure this report is reasonably accurate, FactRight makes no guarantees or warranties in that regard. Furthermore, information may change quickly, and FactRight assumes no responsibility for updating this or any other report. This report is therefore provided "as is" and might contain errors, inaccuracies, or outdated information. This report is intended to supplement your efforts in conducting due diligence, not to replace those efforts. This report is subjective and contains information that FactRight has deemed to be material. Information that you deem material may not be included in this report. This report should not be the sole source of information upon which you base your investment recommendations.

**Investment Risk:** FactRight does not warrant the success of the product and/or sponsor discussed in this report. Risk of loss is inherent in all investments. This report cannot possibly address all potential investment risks, which may change over time. For a more comprehensive discussion of the particular risks of this product or program, please see the sponsor's offering document. By highlighting certain risks in this report, FactRight does not intend to minimize other risks that might be described in the offering document. It is important that you understand the strengths and weaknesses of both the sponsor and the product before making an investment recommendation. This report is simply one tool to use in that process.



***Suitability of Product:*** You must evaluate whether this product or program is suitable for any individual investor under the suitability standards set by FINRA and the SEC and in accordance with the policies and procedures of your supervising broker dealer or investment advisor firm. FactRight makes no attempt to determine suitability of a product for any particular investor or type of investor.

***Conflicts of Interest:*** The sponsor or issuer discussed in this report, though not a client of FactRight, has paid a fee to FactRight to prepare this report. The sponsor was provided a draft of this report to review for *factual accuracy*. However, the sponsor was *not* given an opportunity to review the Strengths and Risks sections of this report, nor was the sponsor given any editorial authority over this report. FactRight may perform similar due diligence reporting on other products and sponsors and for other investment professionals.

***No Investment, Legal, or Tax Advice:*** FactRight is not a broker dealer, registered investment advisor, legal advisor, tax advisor, or any other form of financial advisor. Accordingly, FactRight is not authorized to give investment advice, legal advice, tax advice, or any other form of financial advice. You should consult your own investment advisor, tax advisor, and/or attorney to the extent you deem necessary.

***Additional Information:*** If you have questions regarding this report, please contact FactRight at 7500 Flying Cloud Drive, Suite 755, Eden Prairie, MN 55344. Further information on the product and/or sponsor might be available through other sources or in a FactRight report. If you want FactRight to obtain additional information or provide a more in-depth review than given in this report or on FactRight's website, please contact FactRight to discuss the terms and parameters of a supplemental review.

## Appendix A: Documents Reviewed

As part of its review process, FactRight submitted a Request for Information (RFI) document to the Sponsor, which may be supplemented with other written requests. Any documents or files provided to FactRight that were not requested are not reviewed.

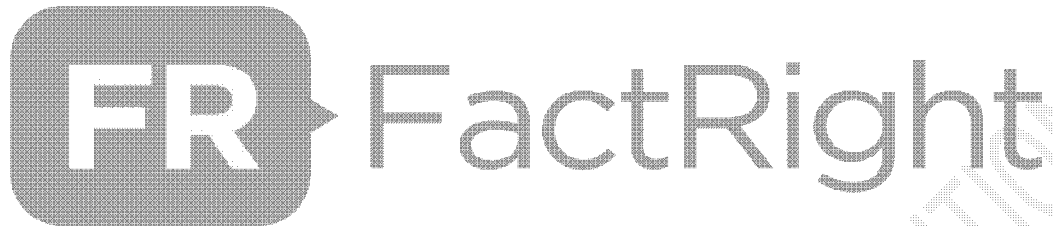
1. Private Placement Memorandum, dated February 26, 2018
2. PPM Supplement, dated April 26, 2018
3. Class B Share Private Placement Memorandum, dated September 1, 2015
4. Operating Agreement, dated September 1, 2015, amended and restated February 26, 2018
5. Investment Allocation Agreement, dated March 23, 2017
6. Marketing Brochures
7. Subscription Agreement
8. Fund Certificate of Formation, dated December 18, 2014
9. Underlying Fund Disclosures

## Appendix B: Customary Private Fund Risks

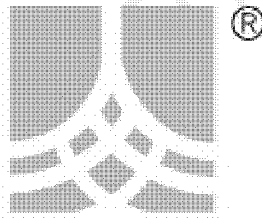
This offering includes customary risks that are typically present in private fund offerings. Customary risks include the following:

- This is a best-efforts offering. In the event the Fund is unable to raise substantial funds, the size and number of investments it can make will be limited.
- FactRight cannot evaluate the quality of the Fund's future investments or their economic merits, nor can FactRight evaluate the terms of any financing used to acquire investments. Class C Shareholders must rely exclusively on the Manager's ability to source and identify viable investments.
- The Share price was determined arbitrarily and does not reflect the value of the Fund's assets, earnings, or book value. See [Valuation](#).
- Investments in the Shares are highly illiquid. See [Liquidity](#).
- The Fund will hold the Manager and its affiliates harmless and indemnify them against any losses, damages, liabilities, or expenses, as previously described in [Indemnification](#).
- The Fund is highly reliant on one key individual, Robert J. Mueller, of the Manager to carry out its business plan. A loss of this key individual could have an adverse effect on the Fund's operations.
- Class C Shareholders have limited ability to remove the Manager, even in the event of poor performance. Class C Shareholders may remove the Manager in limited circumstances, described in [Investor Rights](#).
- The Manager and its affiliates are free to engage in and form similar investment programs that would compete with the Fund for acquisitions and resources of the Manager and its affiliates, which could negatively affect the Fund's performance. See [Investment Allocation](#).
- The operating agreement allows the Manager and its affiliates to make loans to the Fund. No provisions in the operating agreement or PPM impose any limitations on affiliated transactions, other than certain limitations on affiliated loans. See [Affiliated Transactions](#).
- The Manager will be entitled to certain fees not based on performance of the Fund. These fees were not negotiated on an arm's length basis and may be paid to the Manager regardless of the distributions or returns to the Fund. However, residual equity in the Fund is subordinated to Class C Shareholders receiving the lump sum return percentage; see [Fees and Expenses](#).





# Due Diligence Report



deeproot

Offering  
Date

deeproot Growth Runs Deep Fund, LLC  
October 15, 2019



## Contents

<b>EXECUTIVE SUMMARY</b>	<b>3</b>
Offering Summary	3
Investment Objectives	4
Additional Information	5
<b>FEES AND EXPENSES</b>	<b>5</b>
Offering Expenses	5
Sales Discounts	6
Operating and Disposition Fees	6
Interest in the Fund	7
<b>INVESTMENT OVERVIEW</b>	<b>7</b>
Targeted Investments	7
Affiliated Transactions	9
Investment Allocation	9
<b>OFFERING PORTFOLIO ANALYSIS</b>	<b>10</b>
Equity Raise	10
Current Portfolio	10
Dispositions	10
Acquisition Pipeline/Capital Deployment	10
<b>OFFERING FINANCIAL ANALYSIS</b>	<b>11</b>
Leverage	11
Distributions	11
Reserves	13
Financial Model	13
<b>LIQUIDITY</b>	<b>13</b>
Repurchase	13
Transferability	14
Exit Strategy	15
<b>MANAGEMENT</b>	<b>15</b>
Manager	15
Policy Administrator	16
Governance	16



Indemnification	18
<b>ADDITIONAL OFFERING CONSIDERATIONS</b>	<b>19</b>
Valuation	19
Liability	19
Tax Considerations	20
<b>LEGAL AND REGULATORY</b>	<b>20</b>
<b>SUMMARY OF KEY FINDINGS</b>	<b>21</b>
Strengths	21
Risks and Mitigants	21
<b>FACTRIGHT, LLC</b>	<b>22</b>
<b>USE AND SCOPE OF THIS REPORT</b>	<b>22</b>
<b>APPENDIX A: DOCUMENTS REVIEWED</b>	<b>24</b>
<b>APPENDIX B: CUSTOMARY PRIVATE FUND RISKS</b>	<b>25</b>

## Executive Summary

### Offering Summary

Table 1 summarizes the key offering terms and defines abbreviations used throughout this report.

**Table 1**

Product Information	
<b>Offering name</b>	deeproot Growth Runs Deep Fund, LLC (the Fund)
<b>Legal structure</b>	Texas limited liability company
<b>Security type</b>	Class C membership shares (the Shares or the Class C Shares)
<b>Investment focus</b>	Life settlements or life insurance policies
<b>Date formed</b>	February 25, 2014 (sale of Class C Shares initially offered in February 2018)
<b>Price per share</b>	\$25,000
<b>Maximum offering</b>	\$75 million
<b>Minimum offering</b>	\$100,000
<b>Minimum investment</b>	\$50,000 (2 Shares)
<b>Offering termination</b>	Perpetual; no stated termination date
<b>Current raise</b>	N/A
<b>Exit time frame</b>	4 to 6 years after initial investment
<b>Preferred return</b>	Predetermined lump sum; see <a href="#">Distributions</a>
<b>Redemption feature</b>	Manager's discretion; see <a href="#">Repurchase</a>
<b>Leverage</b>	None expected
<b>PPM date</b>	February 5, 2018, supplement dated June 29, 2018
<b>Suitability</b>	Accredited or suitable non-accredited investors; qualified funds accepted (Class C Shareholders)
<b>Registration exemption</b>	506(b) under Regulation D; amended Form D filed 9/12/19 (CIK# 0001606191)

Use of Funds	Amount	Percentage of Equity
<b>Total</b>	\$75,000,000	100.00%
<b>Up-front expense maximum</b>	\$15,000,000	20.00%
<b>Funds available for investment</b>	\$67,500,000	80.00%

Front-End Fees	Amount (as a % of gross offering proceeds)	Paid To
<b>Total up-front advance*</b>	2% minimum; capped at 20%	N/A
<b>Selling commission</b>	7.00%	Selling group
<b>Investor advisory fee</b>	Any <a href="#">investor advisory fee</a> will be at the expense of the Investor.	Selling group
<b>O&amp;O reimbursement</b>	3.00%; estimated	Manager
<b>Annual IRA/qualified fee</b>	As billed by plan custodians	Custodians

\*The total up-front advance includes front-end fees and the asset management fee described below.



Operating Fees	Amount	Paid To
Acquisition fee	N/A	N/A
Asset management fee	The greater of (i) the difference between Investor's contractual return and each underlying policy's maximum contractual return and (ii) 10% of each underlying policy's maximum return; see <a href="#">Operating and Disposition Fees</a>	Manager

Sponsor	
Sponsor name	Policy Services, Inc. (Sponsor)
Contact	Robert J. Mueller
Phone	(888) 316-2935
Year of formation	2012
Prior similar syndications	\$12.7 million Class B membership shares of the Fund, which own separate and distinct assets from Class C Shares offered in this offering
Full-cycle offerings	None

Service Providers	
MBD	None
Manager/Administrative agent	deeproot Funds, LLC (the Manager)
Escrow agent	None

### Investment Objectives

The Fund's objectives are as follows:

- Generate positive returns for investors in the Fund (Class C Shareholders) by investing in life settlements and life insurance contracts
  - There is no guaranteed return.
  - Generating stable income is not an objective of the Fund.
- Distribute income to Class C Shareholders as Fund assets mature
- Liquidate Shares of the Fund in the same chronological order the Fund issued such Shares

Except for the notable chronological Share liquidation feature (see [Distributions](#)), the Fund's investment objectives appear reasonable for a private placement focused on life settlement investments.

### Additional Information

- The Fund sold and will sell Class B membership shares (Class B Shares) in a separate series and under a separate Private Placement Memorandum (PPM). The Fund will earmark for Class C Shareholders any assets it purchases from Investor proceeds, and the two share classes will not be commingled.
  - From an ownership and accounting perspective, having segregated assets within one Fund is an atypical structure relative to most programs that FactRight reviews.
- FactRight has not been engaged to provide a current operational due diligence report on the Sponsor. Broker dealers and RIAs are encouraged to review the Sponsor's financial position, track record, organizational structure, and operational controls in addition to this report.

### Fees and Expenses

FactRight assessed whether fees and expenses for this offering are in line with similar offerings and whether the fee structure creates any unreasonable incentives for management.

#### Offering Expenses

- This is a best-efforts offering.
- The Sponsor may engage third parties to help it distribute Shares. As of the date of this report, it has not selected a managing broker dealer (MBD).
- The Fund will collect an advance of no less than 2% and no more than 20% of the initial principal of each investment (the Advance).
- The Fund will then pay the Advance to the Manager for the following:
  - Asset management fees; see [Operating and Disposition Fees](#).
  - Reimbursement of organizational and offering (O&O) expenses incurred, which the Manager estimates at \$7.5 million (10% of offering proceeds) if the maximum offering is raised. Of this \$7.5 million, \$5.25 million (7% of offering proceeds) is for brokerage commissions and \$2.25 million (3% of offering proceeds) is for other O&O expenses.
    - Other O&O expenses include brokerage commissions, if any; administration expenses; IRA fees, if any; other compensation expenses; and marketing costs.
- The Manager represented to FactRight that the 20% Advance maximum also serves to cap overall expenses of the Fund.
  - Management represented that the remaining 10% of offering proceeds covers agent compensation (if any), nominal administration expenses, IRA fees, other compensation, marketing costs, and Fund Advisor Fees.
  - A 20% advance is atypical of most offerings FactRight reviews, and means that no more than 80% of Investor funds will be allocated to investments.

- Despite taking the Advance, the Fund targets returning 100% of each Investor's principal along with a contractual lump sum return percentage on investment (the Lump Sum Return Percentage); see [Distributions](#).

### Brokerage Commission

If an Investor is represented by a representative, agent, advisor, broker, or other professional who may legally receive compensation for referring, advising, or providing this offering to Class C Shareholders, the Fund may pay such professional a 7% brokerage commission, if such professional has disclosed the fee to the Investor. The Fund will pay brokerage commissions, if any, from offering proceeds.

### Investor Advisory Fee

If the Fund is billed for and pays an Investor advisory fee from an advisor or advisory firm that represents an Investor, then the fee, plus 3% compounded interest, shall be deducted from the Investor's liquidation amount; see [Distributions](#). Any Investor advisory fee is an expense of the Investor and is not included in any calculation or estimate of Fund expenses other than the Advance.

The Fund estimates offering expenses, excluding the management fee, to be 10.0% of gross offering proceeds, which is within the customary range of similar private offerings.

### Sales Discounts

- Class C Shareholders may purchase Shares net of selling commissions, as negotiated by the selling group member.
- Because discounts will result only from the waiver of selling commissions, the sale of discounted Shares will not be dilutive to other Class C Shareholders.

### Operating and Disposition Fees

The Manager and its Administrative Agent receive fees for their services, as detailed under [Administrative Agent](#).

- The Manager and its Administrative Agent will share compensation of the greater of (i) the difference between the Lump Sum Return Percentage (which is described in further detail in [Distributions](#)) and the percentage return on the policies underlying the matured position, and (ii) an amount equal to 10% of any matured policy's gross maximum return before it is assigned to the liquidation of Investor positions.
  - A policy's maximum return is calculated by the face value minus the acquisition value, divided by the acquisition value. For example if the Fund purchases a life policy with a face value of \$500,000 for a purchase price of \$350,000, the policy's maximum return would be 42.86%
- The asset management fee is not subordinated to Class C Shareholders' receipt of principal or the Lump Sum Return Percentage.

- In the event the Fund does not meet its objectives, there is also no claw-back provision.
- The Fund will retain any assets in the portfolio once all Investor positions have been called. Class C Shareholders have no residual equity interest in the Fund.

The Fund advances the asset management fee to the Manager at the time Investor proceeds are received, which is not customary. Additionally, the fee calculation described above is atypical of other private offerings that FactRight has reviewed. FactRight also points out that the management fee is calculated on contractual amounts, while Investor returns are dependent on actual operating results of the Fund. As a result Class C Shareholders may not have any recourse to the Manager in the event the underlying assets do not perform as expected.

### Interest in the Fund

- The Fund is a limited liability company, of which the Manager is the sole original member. The Manager owns all of the Class A membership shares (Class A Shares), and Robert J. Mueller, sole principal of the deeproot® family of companies, controls the Manager.
- The Manager is entitled to a residual interest in the Fund, which includes returns from the pool of investments over the returns that are due and payable to Class C Shareholders; see Operating and Disposition Fees and Distributions.
- The Manager contributed \$1,000 in exchange for 200 Class A Shares on August 3, 2015.
- The Fund sold Class B Shares in a separate series and first-in, first-out queue (FIFO Queue; see Distributions).

FactRight believes that management's residual interest in the Fund helps align the Manager's interests with those of Class C Shareholders.

## Investment Overview

### Targeted Investments

FactRight reviewed offering documentation to identify whether the Fund's investment strategy is reasonable and clearly articulated and to determine whether the Manager has the discretion to diverge from the articulated strategy.

- The Fund will invest in a variety of life insurance related assets, including life settlements and insurance policies on the lives of persons not employed by or affiliated with the Fund, and may hold cash or cash equivalents.
- Life insurance policies must be from highly rated carriers with insured ages of greater than 65 years, with target life expectancies of between four and six years.
- No more than 30% of assets may be placed in private placement or capital acquisition sources.

- In identifying insurance policies for a diversified portfolio, the Manager will target many attributes, but foremost, it will analyze the reliability of the underwriting or life expectancy report. According to the Manager, well-known and reputable underwriters will prepare these reports.
- The Manager will purchase policies meeting the following criteria:
  - Minimum age of insured: 65
  - Target minimum age for male insured: 74
  - Target minimum age for female insured: 76
  - Minimum face-to-acquisition cost ratio at life expectancy: 10.70
  - Policy types: whole, universal life, indexed universal life, variable universal life, convertible term
  - Target life expectancy range: 3–12 years
  - Target life expectancy: 4–6 years
  - Internal life expectancy/premium expense life expectancy: +1 or higher
  - Carrier, AM Best, permissible ratings: B+, B++, A-, A, A+, A++
  - Less than 65 years of age policies: less than 5% of aggregate investments
  - Second to die policies: less than 5% of aggregate investments

FactRight believes the Fund's investment strategy is reasonable, although it should be noted that the Sponsor does not have a significant track record of making and managing life settlement investments. According to management, it has been buying and maintaining life policies since 2012, and that it has purchased 24 policies, of which 4 have matured. Of the remainder, approximately one-third are at least one year beyond life expectancy, and three others are more than two years passed life expectancy.

### Business Plan

- The Fund will purchase eligible life insurance policies in the secondary market based on the following characteristics:
  - The policy's face value
  - The expected actuarial mortality of the insured
  - The premiums expected to be paid over the life of the insured
  - Market competition from other potential purchasers
- The Fund seeks to profit by purchasing policies at discounts to the face value of the insurance benefit.
- The Manager expects to purchase policies at discounts that will enable it to accomplish all of the following:
  - Pay premiums required under the policies
  - Cover the Fund's operating expenses
  - Return the respective principal and the Lump Sum Return Percentage to each Investor
  - Generate additional return for the Fund



### Affiliated Transactions

FactRight reviewed offering documentation to determine the conditions upon which the Fund may enter into affiliated transactions with management, whether such conditions are customary, and if the Fund can make affiliated transactions on terms unfavorable to Class C Shareholders.

- The Fund's operating agreement does not limit transactions with affiliates.
- As per the PPM, the Sponsor will act as policy administrator and sell life insurance policies to the Fund. Management stated the policies are purchased and held as owner and beneficiary by the Sponsor and the Sponsor will determine the price according to the specifications of the Fund.

The Manager may cause the Fund to transact in affiliated acquisitions and sales without restriction. These transactions will not be negotiated on a third-party, arm's length basis and may not always represent the best interests of Class C Shareholders in the Fund. The Manager represented to FactRight that it does not intend on engaging in affiliated transactions beyond using the Sponsor to source life insurance policies rather than purchasing policies directly from insured individuals.

### Investment Allocation

FactRight reviewed offering documentation and the Sponsor's investment allocation policy to determine how management is allocating investment opportunities between potentially competing investment programs and whether management has any procedures that prevent it from awarding to the Fund the best investment opportunities that it identifies.

- The Sponsor represented to FactRight that management does not acquire life insurance-related assets for its own account.
- The Sponsor may raise and deploy capital for more than one life insurance-related investment program at a time.
- The Manager represented to FactRight that it will not reinvest proceeds from any life insurance policy maturity within the Fund.

FactRight did not identify any investment allocation conflicts that would prevent management from allocating to the Fund the best opportunities it identifies; however, Class C Shareholders should be aware that the Fund might allocate investment opportunities to Class B Shareholders at any point in time. Because the Class B and Class C Shareholders are segregated within the Fund, one share class might be granted an investment opportunity to the detriment of the other. Management does not have any policy governing how it allocates policies between Class A and Class B Shareholders.

## Offering Portfolio Analysis

### Equity Raise

FactRight assessed the current capital raise for Class C Shares to identify any concern regarding the Fund's ability to raise substantial capital, which could limit the size and number of investments it can make and its ability to achieve its investment objectives.

- According to management, the Fund has raised at least \$12.7 million through a separate offering of Class B Shares as of the date of this report. Class B Shareholders will own separate and distinct assets from the Class C Shareholders.
- Management stated it did not begin offering the Class C Shares until early 2018. The Fund has not raised any capital through the sale of Class C Shares as of the date of this report.

FactRight recommends ongoing monitoring of the Fund's capital raise trends in the future.

### Current Portfolio

FactRight assessed the current investment portfolio to determine whether the Fund is investing within its stated investment strategy, as described in Targeted Investments.

- As of a previous review, the Sponsor held an insurance policy portfolio of approximately \$34.7 million face value with an aggregate acquisition price of \$15.6 million. Management did not provide updated information as of the date of this report, but represented that the portfolio is substantially the same.
- As it has not raised any capital through this offering, Class C Shareholders have not acquired any assets as of the date of this report.
- Management stated that the size of the Class C Shareholders' portfolio will be dependent on numerous factors, including capital raise, types of available policies at sourcing, and the terms of the policies' sources. Management noted that based on its existing portfolio, it would project about one policy per \$400,000 of invested capital.

### Dispositions

The Fund had disposed of no assets as of the date of this report.

### Acquisition Pipeline/Capital Deployment

FactRight requested, but was not provided, a list of the Fund's investment pipeline to determine whether targeted opportunities meet the Fund's stated investment criteria and if sufficient assets are available in the pipeline to allow the Fund to successfully implement its investment strategy for Class C Shareholders, as described in Targeted Investments.



The Manager represented to FactRight that the Fund has readily available opportunities through its broker network and the secondary life insurance policy market. The Manager declined to provide specific targeted policies due to the time sensitivity and constant flux of the market.

FactRight has no reason to believe that the supply of suitable opportunities is insufficient for the Fund to deploy capital.

## Offering Financial Analysis

FactRight typically reviews the overall financial health of a fund, including its financial position and results from operations, in order to identify red flags or risks, particularly those that could affect Class C Shareholders.

- Because the Fund has no assets in its portfolio allocated to Class C Shares, it has no meaningful performance to evaluate.

## Leverage

FactRight reviewed offering documentation to determine whether the Fund has any limits on leverage and to identify management's anticipated use of leverage. FactRight also assessed the Fund's current use of leverage in order to identify any material debt-related considerations.

- The operating agreement does not impose any leverage limits on the Fund.
- The Fund is permitted to borrow against life insurance policies.
- The Fund has not entered into any financing agreements as of this review.

The Manager represented to FactRight that it does not intend to leverage the Fund. FactRight believes that the Fund's intended leverage strategy is reasonable, but FactRight points out that the Manager may utilize leverage at any time.

## Distributions

FactRight reviewed offering documentation to identify the terms under which management may authorize distributions and to assess whether management's interests are aligned with Class C Shareholders' interests.

- The Fund assigns a pre-determined rate (the Liquidation Multiplier), which is currently set at 1.525, or 52.5% shown in table 2, to each Investor position based on the amount of capital each Investor contributes. The percentage.
  - For example, if a hypothetical Investor buys into the Fund with \$100,000 and the Fund meets its objectives, such Investor will receive back its capital contribution of \$100,000, plus 52.5% (the Lump Sum Return Percentage)—\$52,500.

- The PPM supplement includes a hypothetical annualized simple return per year table, which shows annualized returns ranging from 52.5% in Year 1 to 5.25% in Year 10.
- The Fund then segments Investor positions in a chronological first-in, first-out queue (FIFO Queue).
  - Class C Shareholders will not know their position in the FIFO Queue prior to investing, although they will be notified when their position changes.
- As assets mature, the Fund calls (pays off) Investor positions based on their respective order in the FIFO Queue. The PPM refers to this liquidation of Investor positions as “mandatory calls” (Mandatory Calls).
- Class C Shareholders have two options upon receiving a Mandatory Call. They may reinvest their positions in return for an increased (five additional return percentage points) Liquidation Multiplier, or they may receive their initial principal plus the Lump Sum Return Percentage.
  - For example, the hypothetical investor from above may opt to receive \$152,500 or reinvest that total at a new Lump Sum Return Percentage of 57.5%.
- All Mandatory Calls are made at the sole discretion of the Fund and without recourse for Class C Shareholders.
- Because the Fund has not made any investments allocated to Class C Shareholders, it has not yet made any distributions to Class C Shareholders.
- No clawback provision is available as it relates to fees collected by the Manager before Class C Shareholders have received a return of their initial capital contribution and Lump Sum Return Percentage.
- The Fund may make distributions from any source.
  - As a result, the Fund may be able to fund the Lump Sum Return Percentages with funds that were not earned through its operations.
- Class C Shareholders will not have any interest in the upside of the Fund beyond their lump sum percentage described above. Management, as Class A Shareholders, will receive any returns from the pool of investments over the returns due and payable to Class C Shareholders.
- The Fund may also make tax distributions.
  - This means Class C Shareholders may be deemed to have received income for tax purposes without receiving an actual return from the Fund.

The Lump Sum and Mandatory Call features associated with this program are atypical of other private placements FactRight has reviewed. However, management’s interest in the residual amount after the Lump Sums have been paid out may help incentivize the Manager to return Investor capital and meet the Lump Sum Return Percentage distributions.

## Reserves

FactRight reviewed offering documentation to determine for what purpose reserve accounts, if any, will be used, whether it appears reserve funds will be sufficient for those purposes, the sources of reserve funds, and whether the reserve funds are accountable to Class C Shareholders.

- The PPM does not mention any specific reserve accounts.
- The PPM allows the Manager to create reserve accounts out of offering proceeds for administration or management purposes.

The lack of articulated reserve accounts at the outset of this offering is typical for similar investment programs and does not raise any concerns for FactRight. However, FactRight notes that some investment programs that have focused on life settlement assets have included articulated reserve accounts, which reserve premium payments for life expectancy plus a certain number of years.

## Financial Model

FactRight requested, but the Manager was unable to provide, pro forma cash flow projections. The Manager responded that long-term cash flows cannot be projected because of the unique structure of the Fund.

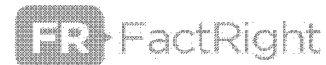
## Liquidity

### Repurchase

FactRight reviewed offering documentation to identify whether Class C Shareholders will be offered any liquidity through a share call program and to assess whether the terms of such call program are customary for similar private programs.

### Mandatory Call

- All Mandatory Calls are made at the sole discretion of the Fund.
  - “Mandatory” refers to the fact that the Investor must accept the call.
- Class C Shareholders’ positions are subject to a Mandatory Call when all of the following events have occurred:
  - An asset matures, or life insurance policy matures due to the death of the insured.
  - The Fund receives the maturity amount or, for life policies, the death benefit or face value of the life policy from an insurance carrier.
  - The Investor owns the next position in the FIFO Queue.
  - Enough net proceeds exist from the maturity to pay 100% of principal, and the Lump Sum Return Percentage, to the next Investor’s position in the FIFO Queue.



- The Fund conveys to the Investor written notification of a Mandatory Call, the liquidation amount, pay date, and a right to renew.

### **Right to Renew**

In lieu of accepting the call in cash, an Investor may reinvest part or all of the called Shares. If an Investor renews at least 90% of the called Shares, then the Investor will receive a bonus of 5% added to his or her Liquidation Multiplier on the renewed position.

- The renewal bonus is not cumulative.
- The Fund treats renewed investments like new investments and places them at the end of the FIFO Queue.

As previously referenced, the Mandatory Call and FIFO Queue features associated with this offering are atypical of other private placements FactRight has reviewed. Nonetheless, the features do offer some form of liquidity, at the Manager's discretion, which many private placements do not.

### **Transferability**

FactRight reviewed offering documentation to determine whether restrictions on the transferability of Shares are customary for similar private programs.

- No market exists for the Shares, nor is one expected to develop.
- Class C Shareholders may not sell or transfer Shares without the consent of the majority of the Class A Shareholders.
  - As per the PPM, the Manager holds all Class A Shares.
- The operating agreement provides certain conditions that must be satisfied for an Investor to transfer Shares, including the following:
  - The transferor delivers an unqualified opinion of counsel (designated by the remaining Class C Shareholders) that the transfer does not violate any provision of any federal or state securities law.
  - The transferee executes a statement that it is acquiring the Shares for its own account for investment and not with a view to distribution or resale.
  - The Fund receives a favorable opinion of the Fund's legal counsel that the transfer would not result in the termination of the Fund.
  - Under specific circumstances, remaining members and Class C Shareholders may waive certain requirements.

This is an illiquid investment. The restrictions on transferability are numerous and customary for similar private programs.

## Exit Strategy

FactRight assessed offering documentation for potential liquidity options, as well as expectations for Investor exit, in order to identify whether the plans for liquidity are customary and consistent with the nature of the Fund's targeted investments.

- There is no specific term period for this investment.
- The Fund intends, but is not required, to purchase life insurance assets with a target life expectancy of four to six years.
- Unless the Fund calls the Shares, Class C Shareholders will remain invested in the Fund and may not sell or assign Shares without permission or approval of the Manager; see [Transferability](#).

FactRight believes the contemplated plan for liquidity, with the exception of the unique FIFO Queue feature, is consistent with the nature of the Fund's [targeted investments](#). However, there is no prescribed time period for exit, and Investor should view an investment in the Fund as a long-term illiquid investment.

## Management

### Manager

FactRight reviewed the draft operating agreement to determine whether the Manager's rights and duties are customary for similar investment programs.

- The Manager has exclusive control over all management of affairs and operations of the Fund.
- According to the PPM, the Fund has designated Robert J. Mueller as its "initial" Manager, and a board of managers will ultimately manage the fund. According to Mr. Mueller and the investment allocation agreement reviewed by FactRight, deeproot Funds, LLC, an entity controlled by Mr. Mueller, is already managing the Fund.
- The Manager must manage the Fund in a prudent and businesslike manner, devoting such portion of its time and effort to Fund affairs as may reasonably be required to manage the Fund effectively.

FactRight points out that the "prudent and businesslike manner" standard is the sole standard of care imposed under the operating agreement.

### Administrative Agent

- The Manager has entered into an investment allocation agreement with the Administrative Agent, an affiliate also controlled by Mr. Mueller, to direct the investment capital of the Fund.
- The Administrative Agent's authority includes the following:
  - Receiving funds
  - Borrowing, buying, selling, leasing, exchanging, converting, and executing transactions



- Commencing, operating, managing, and directing and disbursing investments of the Fund without prior consultation with the Manager
- Performing any reasonable activity it deems necessary to achieve the goals of the Fund
- The Administrative Agent must act not only within the authority of the Manager, but also within its own discretionary authority provided under the investment allocation agreement.
- Under the terms of the agreement, the Administrative Agent must act with the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would act.
- The agreement does not prohibit the Manager or its Administrative Agent from managing similar investment programs that may compete with the Fund; see [Investment Allocation](#).

The Manager and the Administrative Agent have operational roles that are customary for similar investment programs; however, they have the duty only to act in accordance with a “reasonably prudent person”-type standard, which is a lesser standard than fiduciary duty. A fiduciary duty is typically imposed on persons having management roles in publicly registered companies.

### Policy Administrator

As per the PPM, the Fund will use an affiliated policy administrator between itself and insurance carriers of the policies it purchases. Management represented to FactRight that the policy administrator will be the Sponsor. The Fund makes no further mention of this arrangement in any of the offering documentation.

### Governance

FactRight assessed the operating agreement for various provisions, including those related to Manager and investor rights, transparency, and other features or limitations not addressed elsewhere in this report.

### Investor Rights

- Class A Shareholders may adopt, amend, or restate the bylaws of the Fund.
- The Fund is authorized to issue 4,200 shares, segregated into three classes as follows:
  - 200 Class A Shares, \$1,000
  - 1,000 Class B Shares, \$25 million
  - 3,000 Class C Shares, \$75 million
- Upon dissolution of the Fund, Class B Shareholders will have priority over Class C Shareholders with regard to any final distribution of assets.
  - Class B and Class C Shareholders will have ownership interest in separate and distinct assets. Management clarified that Class B Shareholders will have priority rights to any remaining assets at a corporate level, not at an asset level.



- Class B and Class C Shareholders are entitled to a Lump Sum Return Percentage detailed in each class's respective PPM.
- The Fund may, without notifying Class C Shareholders, increase the outstanding, issued, and/or authorized number of Class C Shares, in order to accommodate renewals by Class C Shareholders.
- Class C Shareholders may remove the Manager only for conduct rising to clear and unambiguous criminal conduct as determined by a court.
- Class C Shareholders have limited voting rights, such as the right to consent to the following:
  - Any substantial changes to the offering
  - Substantial changes to the ownership or management of the Fund
  - The sale, lease, exchange, or disposal of all or substantially all of the Fund's property and assets
  - Any requirement that forces the majority of Class C Shareholders to make additional capital contributions
  - Any amendment or restatement of the articles of the Fund that would adversely impact the rights, privileges, or benefits of any Investor

As is the case for similar private programs, Class C Shareholders will not have the right to participate in management. However, Class C Shareholders will be able to vote on the above actions, which FactRight believes are relatively customary voting rights for similar private placement programs.

### Transparency

- None of the Fund's offering documents require the Fund to have any of its financial statements audited.
- Upon request, the Manager will deliver to each Investor the following:
  - Financial statements of the Fund for that year, including an income statement, balance sheet, statement of cash flow, and statement of changes in Class C Shareholders' equity, with a summary for each Investor
  - Federal and other applicable income-tax returns of the Fund for that year
- As per the PPM, secure online access to Fund information is available at <https://secure.deeprootfunds.com>.
- The Manager will provide the following:
  - Notice of any default of any underlying asset
  - Notice of a failure to pay any liquidation amount to any Investor
  - A statement of account at least once annually
  - A statement of the Fund's unaudited financial condition and internal valuation of its portfolio
  - Notice of any adverse regulatory or legal notice, proceeding, or decision that significantly affects Class C Shareholders' rights or values
  - Notice of any other event that has a significant potential to negatively affect the Fund's ability to return principal and interest to Class C Shareholders
- The Manager, upon request, will provide the following:
  - A statement of account value

- A statement of the Fund's current financial condition
- The Manager deems itself to have provided all information posted to the website, whether or not Class C Shareholders have requested such access.
- The Manager will maintain all documents of the Fund at its principal office, 8200 W. Interstate 10, Ste. 600, San Antonio, TX 78230, or at any other location in Texas that the Manager may select.
- The Fund retains the right not to release certain information, including specific positions, investments, assets, or transactions underlying its portfolio.
- The Fund will not disclose to any Investor how many positions are already in the FIFO Queue until after it has processed such Investor's purchase transactions.

The Fund will provide Class C Shareholders with access and information that FactRight believes is relatively customary for similar private placement programs, but for one notable exception: Class C Shareholders will not have access to the Fund's asset holdings. Class C Shareholders will not be unable to verify that the underlying assets purchased by the Fund are generating contractual returns that are greater than the overall portfolio's Lump Sum Return Percentage. Class C Shareholders in the Fund are relying solely on the Manager's willingness, expertise, and ability to properly manage the Fund.

### Indemnification

FactRight reviewed the operating agreement to determine under what circumstances the Fund will indemnify the Manager and its affiliates and whether those conditions are customary for other similar private programs.

- With the exception of the specific instances that follow, the Fund will indemnify each Investor, member, manager, and officer of the Fund to the full extent permitted in accordance with the provisions of the Texas Act.
- The Fund will not indemnify the following:
  - An Investor or member with respect to any dispute (i) among the Class C Shareholders or members or (ii) among the Fund and any Investor or member arising out of (a) the operating agreement or (b) any other agreement among such Class C Shareholders or members and the Fund
  - Any manager or officer with respect to any dispute between such manager or officer and the Fund arising out of any agreement between the Fund and such manager or officer

FactRight believes the indemnification provisions in the operating agreement are relatively customary for similar private programs.

## Additional Offering Considerations

### Valuation

FactRight reviewed offering documentation to identify if the Fund has any requirements to provide estimated asset or per-Share valuations, including a requirement to engage an independent valuation firm.

- The Fund is not required to undertake independent appraisals of underlying assets in determining Share value.
- The Manager will determine the amount and timing of any Mandatory Call based on the actual net amount received from the maturity of underlying assets, regardless of any underlying asset's market value.

The Fund does not have any meaningful valuation procedures. Management will have significant leeway in valuing the Fund's assets, which is not atypical for similar private programs. If the value of the Fund decreases during the offering, new Class C Shareholders will experience an immediate dilution in value of any Shares purchased. The Fund may not be suitable for qualified plans that require the Fund to provide fiduciaries, IRA trustees, and custodians with an annual valuation of the Shares.

### Liability

FactRight reviewed the operating agreement to determine what level of personal liability Class C Shareholders will incur by investing in the Fund and under what circumstances, if any, capital calls are permitted.

- Offering documents reviewed by FactRight do not expressly permit or prohibit capital calls.
  - When the Fund acquires a life policy, the Fund may be required to pay policy premiums. The Fund reserves the right to request additional capital from Class C Shareholders if (i) the Fund gives reasonable notice and (ii) the Fund believes it is in the financial best interest of Class C Shareholders.
  - Offering documents do not state the consequences of failing to meet a capital call. Management stated that if a default were to occur, the Fund would likely return the value of the capital calls at maturity to those Class C Shareholders who contributed additional capital rather than try to equalize those who contributed and penalize those who didn't.
- However, Class C Shareholders will not be personally liable for any debt or loss of the Fund beyond their respective capital contributions and undistributed share of Fund profits.
- Per Texas law, an Investor may be liable to the extent of any distribution made if the Investor knew at the time such distribution was made that the remaining assets would not be sufficient to meet any outstanding liabilities.

Limited personal liability for Class C Shareholders is customary for programs that use the limited liability company structure. Capital call features are not typical of private placement programs. FactRight points



out that the Fund may request, as opposed to compel, additional capital outlays from Class C Shareholders.

### Tax Considerations

FactRight reviewed offering documentation to assess whether there are any material tax issues that may expose the Fund to non-customary risks.

- The Fund is accepting subscriptions from qualified accounts.
  - The Shares are not intended to satisfy required minimum distributions (RMDs), even though an Investor's return might be greater than the annual RMD requirement.
- The Fund has not obtained a legal opinion concerning the tax implications of investing in the Fund and the PPM states that it is each Investor's responsibility to obtain an independent tax opinion concerning the tax status or implications of investing in the Fund.

The Sponsor touts the design of the Fund as the "only design of its kind in the world." Because of the Fund's innovative design, limited operating history, and lack of a tax opinion, there can be no assurances that the Fund meets all of the requirements to be taxed as an LLC. FactRight encourages Class C Shareholders to consult their own tax advisors regarding their individual tax situations.

### Legal and Regulatory

The purpose of this section is threefold. First, this section attempts to ascertain the likelihood that an organization's officers or key employees may commit fraudulent or risky activity and to identify whether the manner in which an organization conducts its business activities may position the organization for costly litigation. Second, this section attempts to identify disqualifying "bad actor" events under 17 C.F.R. §230.506(d) of issuers, affiliated issuers, and individuals. This review does not include registered representatives or selling group members. Third, this section attempts to identify areas of litigation-related contingent liabilities that may affect the organization's financial position. FactRight attempts to analyze these questions by performing litigation and background searches on officers, certain key employees, and organizational entities. Additionally, FactRight reviews any exam or audit conducted by an organization's governing body. FactRight performs litigation and background searches using Scherzer International, Inc. (Scherzer), Lexis Advance® from LexisNexis (LexisNexis), Public Access to Court Electronic Records (PACER), FINRA BrokerCheck, and various state-sponsored websites. Although FactRight makes every effort to locate any material criminal or civil matters, liens, judgments, and regulatory events, every background search system has limitations. Thus, not all such matters and events may be disclosed below.

With respect to background checks, FactRight reports only on those matters that it deems to be material using its professional judgment. Generally, FactRight's scope is 10 years, except for certain matters, including but not limited to fraud (including securities-related), license revocations, and other



securities-related matters. FactRight deems immaterial isolated incidents of traffic violations, small tax liens, personal domestic matters, and litigation matters with small amounts at issue. With respect to entity background checks, FactRight deems immaterial matters within the ordinary course of business and when the amount in controversy is less than \$100,000.

Background, lien, judgment, and litigation searches were performed on Robert J. Mueller using data provided by Scherzer on February 22, 2018, and updated with data provided by LexisNexis on October 2, 2019.

Background, lien, judgment, and litigation searches were performed on the following entities using data provided by LexisNexis on October 2, 2019:

- deeproot Growth Runs Deep Fund, LLC
- Policy Services, Inc.
- deeproot Funds, LLC
- deeproot Tech, LLC

Within the parameters above, FactRight's searches did not reveal any material liens, judgments, or litigation.

FactRight's review found no disqualifying "bad actor" events related to the Sponsor, any affiliated issuer, or any affiliated individual. Although past conduct is not necessarily predictive of future activity, nothing came to FactRight's attention that would raise concern or require further investigation based on these background search results.

## Summary of Key Findings

### Strengths

- *Intentionally Omitted*

### Risks and Mitigants

This section discusses the risks and mitigants (if applicable) that are unique to, or especially significant in, this offering. For an overview of risks that are generally present in private fund offerings, see [Appendix B: Customary Private Fund Risks](#).

- *Intentionally Omitted*



## FactRight, LLC

FactRight, LLC (FactRight), is a third-party risk management firm serving the investment marketplace. FactRight and its affiliated companies provide in-depth due diligence reports on alternative investment offerings and sponsors, investment committee recommendations, arbitration/litigation support, ongoing program monitoring, regulatory compliance, education and training, and other custom services.

FactRight relies on its professionals from each relevant discipline to evaluate the offerings and sponsors from a multidimensional perspective. Accordingly, FactRight's financial, legal, securities, business operations, and asset-specific experts bring their expertise to bear on every report FactRight provides to the investment community. FactRight's experts are not only committed to providing superior due diligence analysis and ongoing support to clients but are also active advocates in the alternative-investment industry.

## Use and Scope of This Report

**Use of This Report:** This report is not intended for use by investors and may not be shared with investors. Rather, this report is intended only for financial professionals who give investment advice. This report is not a recommendation to purchase or sell any investment. This report is largely based on information received from the sponsor that the sponsor has represented to be true and correct. FactRight may also have obtained information from outside sources. Although every effort has been made to ensure this report is reasonably accurate, FactRight makes no guarantees or warranties in that regard. Furthermore, information may change quickly, and FactRight assumes no responsibility for updating this or any other report. This report is therefore provided "as is" and might contain errors, inaccuracies, or outdated information. This report is intended to supplement your efforts in conducting due diligence, not to replace those efforts. This report is subjective and contains information that FactRight has deemed to be material. Information that you deem material may not be included in this report. This report should not be the sole source of information upon which you base your investment recommendations.

**Investment Risk:** FactRight does not warrant the success of the product and/or sponsor discussed in this report. Risk of loss is inherent in all investments. This report cannot possibly address all potential investment risks, which may change over time. For a more comprehensive discussion of the particular risks of this product or program, please see the sponsor's offering document. By highlighting certain risks in this report, FactRight does not intend to minimize other risks that might be described in the offering document. It is important that you understand the strengths and weaknesses of both the sponsor and the product before making an investment recommendation. This report is simply one tool to use in that process.





**Suitability of Product:** You must evaluate whether this product or program is suitable for any individual investor under the suitability standards set by FINRA and the SEC and in accordance with the policies and procedures of your supervising broker dealer or investment advisor firm. FactRight makes no attempt to determine suitability of a product for any particular investor or type of investor.

**Conflicts of Interest:** The sponsor or issuer discussed in this report, though not a client of FactRight, has paid a fee to FactRight to prepare this report. The sponsor was provided a draft of this report to review for *factual accuracy*. However, the sponsor was *not* given an opportunity to review the Strengths and Risks sections of this report, nor was the sponsor given any editorial authority over this report. FactRight may perform similar due diligence reporting on other products and sponsors and for other investment professionals.

**No Investment, Legal, or Tax Advice:** FactRight is not a broker dealer, registered investment advisor, legal advisor, tax advisor, or any other form of financial advisor. Accordingly, FactRight is not authorized to give investment advice, legal advice, tax advice, or any other form of financial advice. You should consult your own investment advisor, tax advisor, and/or attorney to the extent you deem necessary.

**Additional Information:** If you have questions regarding this report, please contact FactRight at 7500 Flying Cloud Drive, Suite 755, Eden Prairie, MN 55344. Further information on the product and/or sponsor might be available through other sources or in a FactRight report. If you want FactRight to obtain additional information or provide a more in-depth review than given in this report or on FactRight's website, please contact FactRight to discuss the terms and parameters of a supplemental review.

## Appendix A: Documents Reviewed

As part of review process, FactRight submitted a Request for Information (RFI) document to the Sponsor, which may be supplemented with other written requests. Any documents or files provided to FactRight that were not requested are not reviewed.

1. Private Placement Memorandum, dated February 26, 2018
2. PPM Supplement, dated June 29, 2018
3. Class B Share Private Placement Memorandum, dated August 3, 2015
4. Operating Agreement, dated August 3, 2015, amended and restated February 26, 2018
5. Investment Allocation Agreement, dated March 3, 2017
6. Marketing Brochures
7. Subscription Agreement
8. Fund Certificate of Formation, dated February 25, 2014



## Appendix B: Customary Private Fund Risks

This offering includes customary risks that are typically present in private fund offerings. Customary risks include the following:

- This is a best-efforts offering. In the event the Fund is unable to raise substantial funds, the size and number of investments it can make will be limited.
- FactRight cannot evaluate the quality of the Fund's future investments or their economic merits; nor can FactRight evaluate the terms of any financing used to acquire investments. Class C Shareholders must rely exclusively on the Manager's ability to source and identify viable investments.
- The Share price was determined arbitrarily and does not reflect the value of the Fund's assets, earnings, or book value. See [Valuation](#).
- Investments in the Shares are highly illiquid. See [Liquidity](#).
- The Fund will hold the Manager and its affiliates harmless and indemnify them against any losses, damages, liabilities, or expenses as previously described in [Indemnification](#).
- The Fund is highly reliant on one key individual, Robert J. Mueller, of the Manager, to carry out its business plan. A loss of this key individual could have an adverse effect on the Fund's operations.
- Class C Shareholders have limited ability to remove the Manager, even in the event of poor performance. Class C Shareholders may remove the Manager in limited circumstances described in [Investor Rights](#).
- The Manager and its affiliates are free to engage in and form similar investment programs that would compete with the Fund for acquisitions and resources of the Manager and its affiliates, which could negatively affect the Fund's performance. See [Investment Allocation](#).
- The operating agreement allows the Manager and its affiliates to make loans to the Fund. No provisions in the operating agreement or the PPM impose any limitations on affiliated transactions, other than certain limitations on affiliated loans. See [Affiliated Transactions](#).
- The Manager will be entitled to certain fees not based on performance of the Fund. These fees were not negotiated on an arm's length basis and may be paid to the Manager regardless of the distributions or returns to the Fund. However, residual equity in the Fund is subordinated to Class C Shareholders receiving the Lump Sum Return Percentage; see [Fees and Expenses](#).